

Accountability Report

Fiscal Year 2001



Department of the Treasury

A Message from the Secretary of the Treasury

February 27, 2002

On behalf of the Department of the Treasury, I am presenting the Department's Accountability Report for Fiscal Year 2001. The report describes the Department's missions, goals and accomplishments, and seeks to demonstrate the way in which our diverse functions are tied to the Department's broad economic, financial, and law enforcement missions. The report also includes the Department's financial statements and other key information. I am pleased to report the significant accomplishment of receiving an unqualified audit opinion for the second year in a row, after the Department received an initial unqualified opinion for FY 2000.



The Department of the Treasury plays a key role in the core functions of government, including tax policy and administration, revenue collection, law enforcement, financial management, banking policy, and international and domestic economic policy. Among other activities, we fight narcotics trafficking and money laundering, and manage the Federal Government's debt structure. We manufacture and protect the nation's currency, process the benefit payments for millions of Americans, protect our nation's leaders, and help develop policies on the budget, the nation's tax structure, and international economic matters.

Activities of the Department of the Treasury affect the lives of every American, as well as others around the world. Nowhere can this be more evident than actions taken after September 11, 2001, when Treasury led the international effort to trace the funds terrorists use to finance their activities and to block and seize these funds.

Within the Department, my personal commitment to a healthy and safe work environment is critical to the continued success of the over 160,000 member workforce of the Department of the Treasury. Further, every day I want each Treasury employee to believe that he or she has been treated with respect, performed meaningful work, and is recognized for his or her contributions to Treasury's mission.

It is my firm belief that we must continually seek new ways to improve services and lower costs in all of Treasury's diverse activities. Treasury will continue to use the Government Performance and Results Act as an integral part of our efforts to establish goals and measure results. This report provides the results of our activities in a manner consistent with the strategic plan in place for Treasury during fiscal year 2001, and all performance measures presented should be considered as complete and accurate as is practical in that regard. Going forward, Treasury will refine its performance measures to make them more useful in and relevant to the decision-making process, and we will improve the timeliness and accuracy of the information systems that capture and report performance data.

The American public deserves a government that is accountable for how it spends taxpayers' money. This Accountability Report demonstrates the Department of the Treasury's commitment to strong program and financial leadership. One small example is our commitment to close the Department's books within three days of the close of each month. Next year, with the help of all of the senior program and financial managers in the Department, I plan to report even better, more timely results, due to the accelerated financial reporting effort we have undertaken.

Sincerely,

A handwritten signature in dark ink that reads "Paul H. O'Neill". The signature is stylized, with the first letters of the first and last names being large and prominent.

Paul H. O'Neill

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A Message from the Chief Financial Officer

February 27, 2002

Continuing with the steady progress on the quality and timeliness of our financial reporting, Fiscal Year (FY) 2001 produced another significant breakthrough in accountability at the Department of the Treasury. Specifically, Treasury demonstrated its commitment to quality and consistency in financial reporting by receiving, for the second year in a row, an unqualified audit opinion on its FY 2001 financial statements. Instrumental again in the FY 2001 financial statement preparation process was the utilization of its corporate level Financial Analysis and Reporting System (FARS) data warehouse for processing the necessary accounting data from all Treasury reporting entities.



The significance of Treasury demonstrating the financial management discipline necessary to prepare timely and accurate financial statements, as measured by an unqualified audit opinion, cannot be overstated. Treasury's role is huge as the principal custodian of the revenue collected and debt issued on behalf of the Federal Government. Three Treasury bureaus alone -- the Internal Revenue Service, the U.S. Customs Service, and the Bureau of Alcohol, Tobacco and Firearms -- accounted for almost 98 percent of all revenues collected by the Federal Government during FY 2001, totaling almost \$2 trillion in net revenue.

Further, total debt managed by the Department including intra-governmental holdings accounted for by our Bureau of Public Debt, was \$5.8 trillion at the end of FY 2001. Treasury also bought back approximately \$30 billion of debt through its buyback operations that, in effect, repurchased higher interest rate Treasury securities in favor of shorter-term securities with lower interest rates. In addition to these significant achievements in our central, cash management activities, Treasury achieved numerous other successes in its diverse set of programs dealing with U.S. and world economies, law enforcement activities, banking oversight, and voluntary compliance with our nation's tax laws. This report highlights the Department's specific performance in each of these programs.

Noting that the achievements above are laudable, I also recognize that we still have significant obstacles to overcome before we can be considered world class in fulfilling our financial management responsibilities. One of our highest priorities will be to implement the President's Management Agenda, including the initiative for "Improved Financial Performance." Further, during FY 2002, Treasury plans to significantly accelerate the financial reporting of our results of operations.

Finally, this report identifies several issues that remain high priorities across the Treasury. Areas needing ongoing attention include: data security; IRS and Customs systems modernization; government wide audited financial statements; and other financial management weaknesses, such as IRS accounts receivable. Nevertheless, an important byproduct of improving Treasury's financial reporting has been a reduction of more than 50 percent in material management control weaknesses Departmentwide from our FY 1998 baseline -- a performance trend we intend to continue. Recognizing that many of these issues are long standing and complex problems, I am committed to working with all the necessary people and offices across the Department to help ensure we make meaningful progress in addressing these issues.

Sincerely,

A handwritten signature in dark ink, appearing to read "E.R. Kingman, Jr.", with a long horizontal flourish extending to the right.

Edward R. Kingman, Jr.

EXECUTIVE SUMMARY

Introduction

As the primary economic advisor to the President, the Secretary of the Treasury has primary responsibility for formulating and recommending domestic and international financial, economic, and tax policies; participating in the formulation of broad fiscal policies that have general significance for the economy; identifying and collecting taxes and duties; and managing the public debt. The Secretary also oversees the activities of the Department in carrying out its major law enforcement responsibilities; in serving as the financial agent for the U.S. Government; and in manufacturing coins, currency, and other products for customer agencies.

This Accountability Report presents our audited financial statements, as well as various program highlights, budgetary information, material financial management and program weaknesses, status of audit recommendations, Prompt Payment Act information, and other required supplemental information.

Organization

The Department is organized into two major components: the Departmental Offices and the operating bureaus. The Departmental Offices are primarily responsible for the formulation of policy and management of the Department as a whole, while the eleven operating bureaus carry out the specific operations assigned to the Department. Subsequent to FY 2001, the Financial Crimes Enforcement Network (FinCEN) became the Department's twelfth bureau.

The Department's FY 2001 operating budget for salaries and expenses was \$14 billion, compared with \$12.4 billion for FY 2000. The number of full time equivalent employees also increased from 143,715 in FY 2000 to 144,985 in FY 2001.

Mission

The Department's strategic plan identifies three programmatic mission areas, covering its ***economic, financial, and law enforcement responsibilities***, and a fourth ***management*** mission area. Program performance measures were developed for each of the goals and objectives as required by the Government Performance and Results Act to evaluate the Department's programs.

Financial Statement Highlights

The Department's financial statements are presented in conformity with generally accepted accounting principles (GAAP), and the form and content of entity financial statements specified by the Office of Management and Budget (OMB). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is designated as the official accounting standards-setting body for the Federal Government by the American Institute of Certified Public Accountants.

As with fiscal year 2000, Treasury received an unqualified audit opinion on its fiscal year 2001 financial statements. This is a significant accomplishment for the Department, and we are continuously improving our financial systems to ensure the timeliness and the accuracy of our financial information. The enhancements made to the Department's Financial Analysis and Reporting System (FARS) and the improvements made in the overall financial reporting process will continue to enable us in providing timely financial information to our management, and meet the ongoing challenge in preparing annual financial statements in a reasonable timeframe comparable to the private sector.

Treasury's total assets as of September 30, 2001 were \$5.96 trillion, which included \$5.5 trillion due from the General Fund of the Federal government to pay the principal on the public debt and tax refunds. Total liabilities were \$5.86 trillion, which included \$2.49 trillion, including interest payable, in borrowing from

various Federal agencies, and \$3.33 trillion, including interest, in Federal debt held by the public.

Net cost of Treasury operations for FY 2001 was \$15 billion. The majority of the increase over the \$12.4 billion in FY 2000 was spent in support of our various financial programs. Total net revenue collected on behalf of the Federal government decreased from \$1.97 trillion in FY 2000 to \$1.94 trillion in FY 2001. This is attributed to a significant increase in FY 2001 in payments for various refunds and tax credits, and the overall decline in economic activity.

Program Highlights

The following presents selected program initiatives and activities during FY 2001, which highlights Treasury's progress in achieving its four mission area goals.

Economic Mission: Promote Prosperous and Stable American and World Economies

The Secretary of the Treasury, as a principal economic advisor to the President, formulates and recommends domestic and international economic, financial and tax policies. Treasury's strategic goals are not only to promote U.S. economic growth, but also to maintain U.S. leadership on global economic issues. Key accomplishments during the fiscal year include:

- Treasury played a key role in developing the Economic Growth and Tax Relief Reconciliation Act of 2001, signed into law by President Bush on June 7. This legislation created a new 10 percent tax bracket and will provide an estimated \$421 billion in tax relief over the next ten years. During the fourth quarter of FY 2001, the FMS distributed approximately 83 million advance payment checks totaling almost \$35 billion in tax relief.
- Treasury participated in the development of proposals for economic recovery and stimulus following the September 11 attacks and the associated disruption of economic

activity and declines in consumer and business confidence.

- Treasury was actively engaged in the development and promotion of policies to enhance long-term growth in the U.S. economy, including promoting lower marginal income tax rates and discipline in Federal spending.
- Treasury actively participated in two financial policy issues highlighted by the September 11 events, terrorism risk insurance and critical infrastructure protection. Treasury began working with Congress on a short-term federal intervention to reduce costs of insurance coverage while ensuring that terrorism risk insurance remains available to all property and casualty insurance policyholders. To address physical and cyber threats to banking and finance, Treasury was asked to chair the Banking and Finance Committee of the Critical Infrastructure Protection Board established by the President to protect critical sectors of the economy.
- The global economy experienced a marked slowdown since late last year. Restoring a strong and sustainable global economy was a fundamental objective of U.S. and Treasury international policies. Treasury's leadership efforts included: strengthening the world economy through open markets and trade; combating terrorist financing that threatens financial systems; expanding participation in the global economy to less technologically advanced nations and poor countries; and reforming the international financial institutions that promote economic growth, development and financial stability.
- Treasury worked with the White House and other agencies to urge the Congress to enact Trade Promotion Authority (TPA) legislation, which will significantly strengthen the President's authority to negotiate trade agreements. The House passed TPA in 2001, and the Senate will consider it in 2002.

- Treasury launched the financial front in the war on terrorism and took the lead in global efforts to combat the financing of terrorism. By the end of the calendar year, 196 countries or jurisdictions around the world had committed to combat terrorist financing, 144 countries had orders in place blocking terrorist assets, and over \$68 million had been frozen globally.

Financial Mission: Manage the Government's Finances

As the primary fiscal agent for the Federal government, Treasury manages the Nation's finances through collecting money due to the United States, making its payments, managing its borrowings, performing central accounting functions, and producing coins and currency sufficient to meet demand. Key accomplishments during the year included the following:

- Treasury closely monitored the Government's receipts and payments and estimated the amount of cash needed daily by the Government for its anticipated payments. Effective management of the Government's daily cash position reduced the Government's borrowing costs.
- Treasury ensured the effective management and investment of funds in its custody and managed the \$2.5 trillion Federal Investment Program, providing security investment services for more than 200 funds for numerous Federal agencies.
- Treasury issued over one billion paper check and electronic funds transfer payments (EFT) in FY 2001 to more than 100 million people.
- FMS continued to convert the Federal government's check payments to EFT, in accordance with the Debt Collection Improvement Act of 1996, that requires most Federal payments to be made by EFT. Not including the 83 million advance payment checks issued for tax relief, the 72 percent of payments made electronically in

FY 2001, compared with 70 percent in FY 2000, is expected to continue to increase, with the expectation that the growth will be tempered by a policy adopted by Treasury that permits certain payment recipients to choose to continue receiving check payments, rather than face mandatory conversion to EFT.

- Treasury increased its collection of gross revenue on behalf of the Federal government from \$2.17 trillion to \$2.19 trillion. These revenues include various duties and taxes, fees and licenses, and fines, interest and penalties.
- Treasury's delinquent debt collection program, administered by FMS, yielded almost \$3.2 billion, an increase of over \$570 million compared to FY 2000 collections.
- In FY 2001, Treasury conducted 24 buyback operations that bought back approximately \$30 billion of debt securities. The buyback program is a debt management tool that has allowed the Treasury to shorten the average maturity of its marketable debt. Securities with higher interest rates are retired in favor of issuance of shorter-term securities with lower rates.

Law Enforcement Mission: Safeguard Our Financial Systems, Protect Our Nation's Leaders, And Secure a Safe and Drug-Free America

Treasury plays a critical role in Federal law enforcement efforts, helping foster a safer nation by combating terrorism and violent crime, protecting our borders, preventing drug smuggling, suppressing counterfeiting, fighting money laundering, preventing financial crimes, and training the vast majority of Federal law enforcement personnel. Key accomplishments during the year included the following:

- As a result of the events on September 11 and the continuing threat of terrorism against the United States, Treasury expanded its role in combating terrorism, which included administering economic

sanctions against those countries identified as sponsors of terrorism and specific foreign terrorist organizations.

- Treasury's law enforcement bureaus also continued their efforts to reduce violent crime in the U.S. According to the Department of Justice (DOJ), the overall level of crime in the United States last year decreased by 3.3 percent and the number of crimes committed with a firearm decreased by 1 percent.
- Following the terrorist attacks of September 11, Treasury led the international effort to trace the funds terrorists use to finance their activities and to block and seize these funds. This resulted in the issuance of asset blocking orders against 164 individuals and entities by the end of calendar year 2001.
- A total of \$258 million in revenue derived from properties seized from illegal activities was deposited in the Treasury Forfeiture Fund. Approximately 78 percent of the forfeited cash resulted from high-impact cases (those with currency seizures in excess of \$100,000), exceeding the target goal of 75 percent.
- Customs continued to make significant illegal drug seizures in terms of pounds seized, number of seizures, and pounds per seizure. Data for pounds seized per number of seizures indicates that we are utilizing our resources more efficiently to make larger seizures, and thus, having more impact on the overall supply.
- Customs deployed over 64 large-scale Non-Intrusive Inspection (NII) systems as part of its 5-Year Technology Plan. NII technology resulted in 265 seizures consisting of over 311,000 pounds of narcotics. This is a substantial increase from the 166 seizures totaling approximately 120,000 pounds recorded in FY 2000.

Management Enabling Goal: Continue to Build a Strong Institution

To effectively meet Treasury's programmatic goals, the Department continued its effort to implement initiatives for strong and efficient management processes and administrative support. In addition, a focus on customer and employee satisfaction is a key to implementing a "balanced" approach to our operations.

- Treasury instituted processes to address workforce planning issues and to improve recruitment efforts, exceeded its procurement competition and small business goals, and worked to enhance information systems security.
- Treasury again received an unqualified audit opinion on its financial statements for FY 2001, and reduced the number of open material weaknesses to 29 at the end of FY 2001, from the FY 1998 baseline year of 60 weaknesses. Treasury also exceeded the goal of having 62% of bureaus in compliance with Federal Financial Management Improvement Act financial systems requirements by achieving 71% compliance, compared with 54% for FY 2000.
- Treasury exceeded its 80% goal of using purchase cards to purchase items less than \$2,500, with a 98% result. Treasury also exceeded its competition goals, with 89% of contract dollars over \$25,000 competed (target of 75%), and 86% of contract actions over \$25,000 competed (target of 70%). In the small business arena, Treasury exceeded its goal of 23% of appropriated procurement dollars awarded to small businesses, with a 34% result.
- Treasury did not meet its goal of having 20% of its systems certified and accredited, as defined by the OMB. However, Treasury improved its results from 7% in FY 2000 to 15.5% in FY 2001.

Results of surveys indicated that several Treasury bureaus improved the overall customer satisfaction with their services and products, including the IRS. The full effects of the new IRS organization structure resulting from the Restructuring and Reform Act of 1998 on the taxpaying public will not be known for several years. However, when the IRS surveyed taxpayers in FY 2001 through the American Customer Satisfaction Index (ACSI), taxpayers gave the IRS a 46% customer satisfaction favorability rating (compared to a 43% rating in FY 2000 and a 37% rating in FY 1999), indicating that public satisfaction with the IRS has risen steadily over the last three years.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

- The Internal Revenue Service, the U.S. Customs Service, the Financial Management Service, and the U.S. Mint were not in substantial compliance with the requirements mandated in the Federal Financial Management Improvement Act (FFMIA). Each of them has prepared system remediation plans designed to achieve compliance at the earliest possible date. Quarterly progress reports on these plans were reviewed by the Department and discussed with the Office of Management and Budget and all relevant audit entities.
- Since the beginning of FY 1999, the Department has achieved a significant 53% reduction in the number of material weaknesses (from 60 to 29) reported under the Federal Managers' Financial Integrity Act.
- The Department continued to monitor progress made in bureaus' implementation of planned corrective actions to address audit findings and recommendations made by the Treasury Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA). Since January 1998 through the end of FY 2001, 121 of the 183 audit reports issued by the OIG have been resolved in their entirety.

During FY 2001, Departmental and bureau management implemented 70% of planned corrective actions. For the IRS, 102 of the 311 reports issued since 1994 by TIGTA and its predecessor, the Office of the Chief Inspector, have been closed. During FY 2001, IRS management implemented 69% of its planned corrective actions.

FUTURE EFFECTS ON EXISTING, CURRENTLY-KNOWN DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS, AND TRENDS

- The terrorist attacks on September 11, 2001 had a significant impact on the operations in a number of Treasury bureaus, especially bureaus with law enforcement programs. The resulting effect placed additional demands and challenges on both funding and human resources to implement various program enhancements in addressing counter-terrorism to ensure the safety of our Nation and its citizens.
- The IRS faces many challenges and opportunities as it modernizes, including implementation of the Restructuring and Reform Act of 1998 (RRA 98). The IRS is creating a modernized structure built around taxpayer needs. Over the last several years, the GAO and the TIGTA have issued reports identifying management challenges and high-risk areas within the IRS. The new management structure and technology focus is designed to address and reduce these high risks and mitigate their chances of occurring in the future.
- The Financial Management Service, as the financial manager of the Federal government, provides a wide range of financial services, as well as timely and accurate financial information, to assist Federal officials when making financial decisions. These services include making a majority of the Federal payments, collecting delinquent non-tax Federal debt, managing

the Federal government's daily cash flow, and issuing various reports on the financial results and operations of the Federal government. The quality and timeliness of these services depend largely on the performance and cooperation of other Federal agencies, Federal Reserve Banks, and the financial institutions.

- The Bureau of Public Debt, responsible for managing the Federal debt programs, faces challenges and demands in the next fiscal year and future years to meet the Federal borrowing needs while minimizing the costs. Another challenge is to continue to provide exemplary investment service to Government funds, such as the Social Security trust funds, while keeping pace with the increasing number of funds in the Federal Investment Program.
- The Treasury Inspector General For Tax Administration (TIGTA) has been designated as the Inspector General responsible for the two organizations established as a result of Public Law 106-422, which amended the Inspector General Act of 1978.

The Criminal Investigator Academy will perform investigator training services for the offices of Inspectors General, and the Inspectors General Forensic Laboratory will provide forensic services for the entire IG community to ensure that fraud investigations are effective in establishing the guilt or innocence of the accused persons.

Part 1

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

INTRODUCTION

As the primary economic advisor to the President, the Secretary of the Treasury has primary responsibility for formulating and recommending domestic and international financial, economic, and tax policies; participating in the formulation of broad fiscal policies that have general significance for the economy; identifying and collecting taxes and duties; and managing the public debt. The Secretary also oversees the activities of the Department in carrying out its major law enforcement responsibilities; in serving as the financial agent for the U.S. Government; and in manufacturing coins, currency, and other products for customer agencies.

The Management's Discussion and Analysis (MD&A), Part 1 of this Accountability Report, is prepared in accordance with the standards established in the Statement of Federal Financial Accounting Standards (SFFAS) Number 15, issued by the Federal Accounting Standards Advisory Board (FASAB). The MD&A provides readers with a general understanding of Treasury's basic organization structure and its many diverse programs which support the four mission areas as articulated in the Treasury-wide Strategic Plan. Because of the complex nature several Treasury bureaus, a bureau's activities may support one or more strategic mission areas and its related goals.

Treasury's financial data and the auditor's opinion on our FY 2001 financial statements are highlighted in the MD&A, along with highlights on the various programs administered by Treasury. Detailed information as required by the Government Performance and Results Act (GPRA) and all of the performance measures reported in Treasury's budget are provided in a separate Program Performance Report, which is issued as a companion to the Accountability Report.

Part 2 of this report provides the auditor's report on Treasury's financial statements for FY 2001. Summary reports by the Inspector Generals on management and performance challenges facing the Department, as required by the Reports Consolidation Act of 2000, are included in Part 2, as well as management's responses to the auditor's report on financial statements and the summary reports.

As the financial agent for the Federal government, Treasury has the unique responsibility of collecting various duties, fees and taxes, and borrowing the money that is needed to operate the Federal government and accounting for the resulting debt. These activities are covered in detail in the financial statements and notes reported in Part 3 of this Report.

This report not only describes various accomplishments achieved by the Department during the fiscal year, but also addresses significant challenges facing the Department in the next fiscal year and future years. Some of these challenges have been identified by the Treasury Inspector General, the Treasury Inspector General for Tax Administration, and the General Accounting Office (GAO) as being high risks to the efficiency of Treasury management and the effectiveness of its programs. Plans for corrective actions to address these issues have been developed by bureau management and are closely monitored by the Department. Part 4 of this report provides the Secretary's Letter of Assurance on Treasury's compliance with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA).

Part 5 of this report provides the required supplemental information to our financial statements and other pertinent financial and program information.

Electronic copy of this Accountability Report is available on the Treasury's World Wide Web site: www.treas.gov/tcfoc/.

Questions and comments regarding this report may be directed to the Office of Accounting and Internal Control, at (202) 622-1450, or to our fax number at (202) 622-2318.

ORGANIZATION STRUCTURE AND MISSION

The Department is organized into two major components: the Departmental Offices and the operating bureaus. The Departmental Offices are primarily responsible for the formulation of policy and management of the Department as a whole, while the eleven operating bureaus carry out the specific operations assigned to the Department. Subsequent to FY 2001, the Financial Crimes Enforcement Network (FinCen) became the Department's twelfth bureau.

Because Treasury's responsibilities and activities are broad in scope and touch the lives of all Americans, we have developed a four-part mission statement, which describes the purposes of our diverse functions. It includes three programmatic mission areas covering our **economic, financial, and law enforcement** responsibilities, and a fourth **management** mission area.

Departmental Offices

The Departmental Offices provides basic support to the Secretary of the Treasury, who maintains the primary role in formulating and managing the domestic and international tax and financial policies of the Federal Government. The Secretary's responsibilities include: recommending and implementing United States domestic and international economic and tax policy; fiscal policy; governing the fiscal operations of the Government; managing the public debt; overseeing the major law enforcement functions carried out by the Treasury Department; managing development of financial policy; representing the United States on international monetary, trade and investment issues; overseeing Treasury Department overseas operations; and directing the administrative operations of the Treasury Department.

Treasury also has several entities within the Departmental Offices, which perform specialized functions to carry out Treasury's mission.

Community Development Financial Institutions (CDFI) Fund -- The Fund provides access to capital and financial services, which helps alleviate poverty and ensure economic growth in America's most distressed communities.

Exchange Stabilization Fund (ESF) -- The Exchange Stabilization Fund (ESF) was authorized in the Gold Reserve Act of 1934 that provided for a fund to be operated by the Secretary of the Treasury, with the approval of the President. Section 10 of the Act, as amended, provides that "consistent with the obligations of the Government in the International Monetary Fund on orderly exchange arrangements and a stable system of exchange rates, the Secretary or an agency designated by the Secretary, with the approval of the President, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary."

Financial Crimes Enforcement Network (FinCEN) -- FinCEN's mission is to support law enforcement investigative efforts and foster interagency and global cooperation against domestic and international financial crimes; and to provide U.S. policymakers with strategic analyses of domestic and worldwide money laundering developments, trends, and patterns. FinCEN works toward those ends through information collection, analysis and sharing, as well as technological assistance and innovative, cost-effective implementation of the Bank Secrecy Act and other Treasury authorities.

Office of D.C. Pensions -- The mission of the Office of D.C. Pensions is to implement the Balanced Budget Act of 1997, Public Law 105-33 (111 Stat. 251), as amended, and to make timely and accurate Federal Benefit Payments associated with the District of Columbia Retirement Programs for police officers, firefighters, teachers, and judges. The Act provides that the Secretary of the Treasury assume certain responsibilities for the District of Columbia pension system, including administration of

fund assets and distribution of pension benefits. To varying degrees Treasury is responsible for three D.C. retirement programs; Police Officers' and Firefighters', Teachers', and Judges'.

Office of Inspector General (OIG) – The OIG conducts and supervises audits, evaluations and investigations designed to: promote economy, efficiency, and effectiveness and prevent fraud, waste, and abuse in Departmental programs and operations; and, keep the Secretary and the Congress fully and currently informed of problems and deficiencies in the administration of Departmental programs and operations.

Treasury Inspector General for Tax Administration (TIGTA) – TIGTA conducts audits, investigations, and evaluations to assess the operations and programs of the Internal Revenue Service and related entities, the IRS Oversight Board and the Office of Chief Counsel to: promote the economic efficient and effective administration of the nation's tax laws and to detect and deter fraud and abuse in IRS programs and operations; and, recommend actions to resolve fraud and other serious problems, abuses, and deficiencies in these programs and operations, and keep the Secretary and the Congress fully and currently informed of these issues and the progress made in resolving them.

Treasury Forfeiture Fund – The Treasury Forfeiture Fund is the receipt account for the deposit of non-tax forfeitures made pursuant to laws enforced or administered by Treasury law enforcement agencies and the United States Coast Guard. The mission of the Fund is to affirmatively influence the consistent and strategic use of asset forfeiture by Treasury law enforcement bureaus to disrupt and dismantle criminal enterprises. The goal of the Fund is to support the Department of the Treasury's national asset forfeiture program along with other national law enforcement strategies and priorities in a manner that results in Federal law enforcement's continued and

effective use of asset forfeiture as a high-impact law enforcement sanction to punish and deter criminal activity.

In addition to the Departmental Offices, Treasury also has eleven bureaus, whose programs and responsibilities support each of the Department's four mission areas. The following section provides a brief description of their missions and the diverse responsibilities, which impact the American public. Readers are encouraged to visit the Treasury web sites, listed on the back cover of this report, for a more detailed description of each bureau's functions and programs.

Bureau of Alcohol, Tobacco and Firearms (ATF)

ATF is a Federal law enforcement organization that serves as the nation's expert on four highly regulated consumer products: alcohol, tobacco, firearms and explosives. These products require special attention due to the important social consequences resulting from their misuse or abuse. ATF represents a uniquely concentrated resource for providing investigative, regulatory, tax collection, technical, scientific and legal expertise relating to these products. This unique combination of tools and skills allows ATF to provide a focused, flexible and balanced approach to protecting the public's legitimate access to these commodities while fighting unlawful use and trafficking.

U.S. Customs Service (Customs)

Customs is the guardian of our nation's borders – America's frontline. It serves and protects the American public with integrity, innovation and pride. It enforces many laws of the United States, designed to safeguard the revenue and foster lawful international trade and travel.

Customs administers the U.S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across our borders, and assessing and collecting duties, excise taxes, and fees on imported and exported goods and services.

Office of the Comptroller of the Currency (OCC)

The OCC charters, regulates, and supervises national banks to ensure a safe, sound, and competitive banking system that supports the citizens, communities, and economy of the United States.

Bureau of Engraving and Printing (BEP)

The mission of the BEP is to securely and efficiently produce United States currency, postage stamps, and other government securities that satisfy the current and future needs of the American public and the government agencies it serves. The BEP also redeems damaged or mutilated currency for the public. During FY 2001, the Bureau of Engraving and Printing continued its efforts to improve product quality. This effort culminated in certification of the currency manufacturing quality management systems in Washington, DC and Fort Worth, TX under ISO (International Organization for Standardization) 9001 standards.

Federal Law Enforcement Training Center (FLETC)

FLETC provides quality, cost effective training to various Federal law enforcement personnel, as well as state, local and international agencies, and private security personnel.

The major goals are to provide law enforcement personnel with state-of-the-art knowledge and techniques used in the law enforcement profession; fully develop the cost effective potential through consolidation of Federal law enforcement training at the FLETC; and provide for all basic training direct costs from FLETC appropriations.

Financial Management Service (FMS)

The Financial Management Service's (FMS) programs and responsibilities support each of the Department's four mission areas. FMS' mission is to provide central payment services to Federal program agencies (FPAs), operate the Federal government's collections and deposit systems, provide Government-wide accounting

and reporting services, and manage the collection of delinquent debt. This is accomplished by providing financial services, information, advice, and assistance to customers, including taxpayers, the Department of the Treasury, FPAs, Government policy makers, and Congress.

Internal Revenue Service (IRS)

IRS' mission is to provide America's taxpayers top quality service by helping them understand and meet their responsibilities and by applying tax law with integrity and fairness to all. At the Internal Revenue Service, the Mission Statement serves as the central theme and guiding business philosophy for management actions and organizational decision making. The Statement emphasizes serving taxpayers as the key concept behind everything the IRS is doing to modernize.

The new modernized structure is organized around customers' needs. This new structure now has four key operating divisions, each charged with full beginning-to-end responsibility for serving a set of taxpayers with similar needs (Wage and Investment; Small Business/Self Employed; Large and Mid-Size Business; and Tax Exempt and Government Entities).

U.S. Mint

The mission of the U.S. Mint is to manufacture the highest quality circulating, numismatic, and bullion coins at the lowest possible cost and to deliver them in a timely manner; to expand its markets through exceptional customer service, product development, and innovative marketing; to sell numismatic and bullion products at a reasonable price and profit; and, to provide security over assets entrusted to it.

The functional mission of the U.S. Mint can be delineated into three distinct areas of program responsibility. The first functional program is the production of circulating coinage for use by the general population. The second functional program area involves the production and sale of commemorative, numismatic, and investment products. The third functional program area is

the protection of U.S. Treasury precious metals and other monetary assets held in the custody of the U.S. Mint.

Bureau of the Public Debt (BPD)

The mission of the Bureau of the Public Debt (Public Debt) is to borrow the money needed to operate the Federal Government and to account for the resulting public debt. This is accomplished through the sale of marketable securities (Treasury Bills, Notes, and Bonds) and non-marketable securities such as U.S. Savings Bonds and special Treasury securities issued to Federal investment funds. Public Debt's primary activities are issuing, servicing, marketing, and retiring government securities, and accounting for the public debt.

U.S. Secret Service (USSS)

The primary objective of the U.S. Secret Service is to provide the highest level of protection possible for all persons authorized Secret Service protection, including the President, the Vice President, and other dignitaries and designated individuals when the protectee is in residence or in a travel status.

The Secret Service is responsible for fighting counterfeiting and other criminal threats to our financial systems. It is responsible for the investigation of counterfeit currency and securities; forgery and altering of government checks and bonds; thefts and fraud relating to Treasury electronic funds transfers; financial access device fraud, telecommunications fraud, computer fraud and telemarketing fraud; fraud concerning federally insured financial institutions; and, other criminal and non-criminal cases.

Office of Thrift Supervision (OTS)

The mission of the OTS is to effectively and efficiently supervise thrift institutions to maintain their safety and soundness in a manner that encourages a competitive industry to meet America's housing, community credit and financial service needs, and to provide access to financial services for all Americans.

Under its primary statutory authority, the Home Owners' Loan Act (HOLA), OTS is responsible for chartering, examining, supervising, and regulating federal savings associations and federal savings banks. HOLA also authorizes OTS to examine, supervise, and regulate state-chartered savings associations belonging to the Savings Association Insurance Fund, and provide for the registration, examination, and regulation of savings association affiliates and holding companies.

The following reporting entity was consolidated with the Department of the Treasury:

The Federal Financing Bank (FFB)

The FFB was created in 1973 to reduce the costs of Federal and federally-assisted borrowing and to ensure the coordination of such borrowing from the public in a manner least disruptive to private financial markets and institutions. FFB loans are used primarily to finance direct agency activities such as construction of Federal buildings by the General Services Administration, and meeting the financing requirements of the U.S. Postal Service. The FFB also makes direct loans to the public that would otherwise be made by private lenders when the loans are fully guaranteed by a Federal agency.

FINANCIAL STATEMENT HIGHLIGHTS

The financial statements contained in Part 3 have been prepared from the accounting records of Treasury in conformity with the accounting principles generally accepted in the United States, and the form and content of entity financial statements specified by the Office of Management and Budget (OMB) Bulletin 01-09. These principles are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), which was designated the official accounting standards setting body of the Federal Government by the American Institute of Certified Public Accountants.

These financial statements are provided to meet the requirements of the Government

Management Reform Act. They consist of the consolidated Balance Sheet, the consolidated Statement of Net Cost, the consolidated statement of Changes in Net Position, the combined Statement of Budgetary Resources, the combined Statement of Financing, and the consolidated Statement of Custodial Activity; all of which are prescribed by OMB Bulletin No. 01-09, Form and Content of Agency Financial Statements.

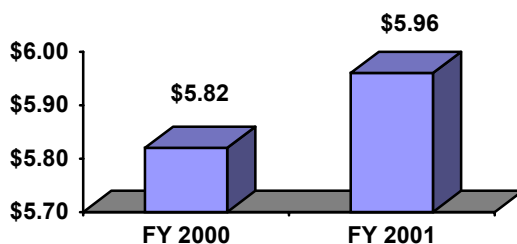
While these financial statements have been prepared from the books and records of the entity, in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

Assets

Treasury's total assets as of September 30, 2001 included \$5.5 trillion due from the General Fund of the Federal government to pay the principal on the public debt and tax refunds. In FY 2000, \$5.4 trillion was due from the General Fund to pay the principal on the public debt and tax refunds.

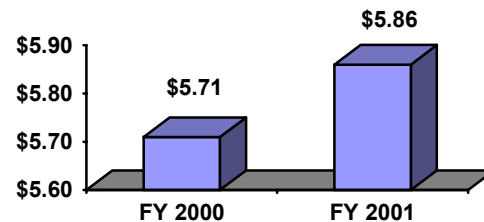
**Total Assets
(In Trillions)**



Liabilities

In FY 2001, Intra-governmental liabilities totaled \$2.49 trillion, including interest payable, in borrowing from various Federal agencies. However, they do not include debt issued by other governmental agencies, such as the Tennessee Valley Authority or the Department of Housing and Urban Development. Liabilities also include Federal debt held by the public, including interest, of \$3.33 trillion; the majority of this debt was issued as Treasury marketable Notes and Bonds. In FY 2000, borrowing from various Federal agencies totaled \$2.24 trillion, and Federal debt held by the public, including interest, totaled \$3.43 trillion.

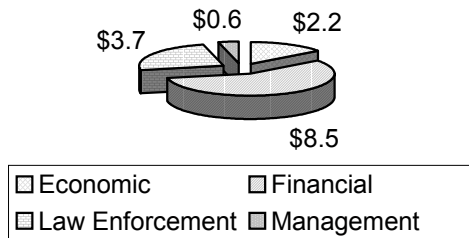
**Total Liabilities
(In Trillions)**



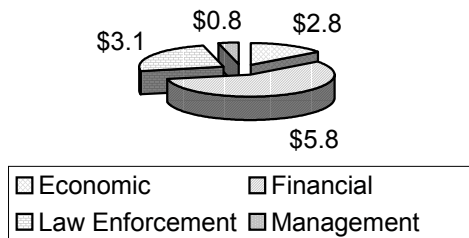
Net Cost of Treasury Operations

The majority of the net cost of Treasury operations is in the *financial* mission area. Treasury is the primary fiscal agent for the Federal government in managing the Nation's finances by collecting revenue, making Federal payments, managing Federal borrowing, performing central accounting functions, and producing coins and currency sufficient to meet the demand.

**Net Cost of Treasury Operations
FY 2001 (In Billions)**



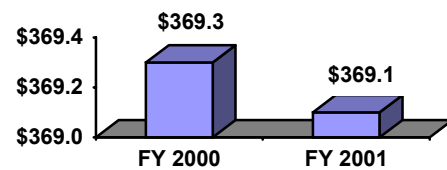
**Net Cost of Treasury Operations
FY 2000 (In Billions)**



Federal Debt Interest and Other Costs

Interest and other costs include interest payments on the Federal debt and other Federal costs, such as payments made to or by the Judgment Fund, the Resolution Funding Corporation, and the District of Columbia.

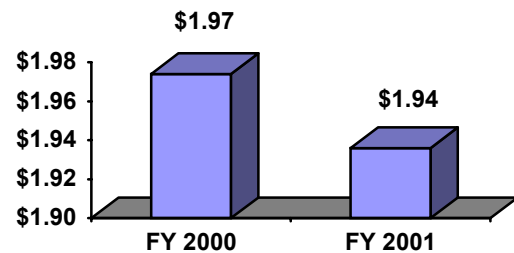
**Federal Debt Interest
and Other Costs
(In Billions)**



Custodial Revenue

Total net revenue collected by Treasury on behalf of the Federal government includes various taxes, tariff duties, user fees, fines and penalties, and other revenue.

**Net Revenue Received
(In Trillions)**



OTHER FINANCIAL HIGHLIGHTS

The following tables provide additional information for the Department of the Treasury and its bureaus.

Treasury Bureau	Appropriations Enacted (in Millions)		Full Time Equivalent Employees	
	FY 2001	FY 2000	FY 2001	FY 2000
Alcohol, Tobacco and Firearms (ATF)	\$771	\$604	4,648	4,417
Office of the Comptroller of the Currency (OCC)	*	*	2,837	2,920
U.S. Customs Service (Customs)	\$2,279	\$1,871	19,577	19,516
Departmental Offices (DO) **	\$881	\$579	3,266	3,265
Bureau of Engraving and Printing (BEP)	*	*	2,490	2,510
Federal Law Enforcement Training Center (FLETC)	\$153	\$114	616	594
Financial Management Service (FMS)	\$206	\$201	1,978	2,055
Internal Revenue Service (IRS)	\$8,696	\$8,216	98,574	97,799
U.S. Mint	*	*	2,760	2,676
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	\$183	\$177	1,472	1,464
U.S. Secret Service (SS)	\$834	\$695	5,556	5,245
Office of Thrift Supervision (OTS)	*	*	1,211	1,254
TOTAL	\$14,003	\$12,457	144,985	143,715

Treasury Bureau	Total Resources (in Millions)		Total Outlays (in Millions)	
	FY 2001	FY 2000	FY 2001	FY 2000
Alcohol, Tobacco and Firearms (ATF)	\$863	\$726	\$694	\$582
Office of the Comptroller of the Currency (OCC)	\$688	\$659	(\$16)	(\$24)
U.S. Customs Service (Customs)	\$4,272	\$4,106	\$2,507	\$2,317
Departmental Offices (DO) **	\$41,573	\$43,112	\$2,255	\$2,965
Bureau of Engraving and Printing (BEP)	\$572	\$618	\$3	(\$60)
Federal Law Enforcement Training Center (FLETC)	\$235	\$172	\$127	\$120
Financial Management Service (FMS)	\$8,785	\$9,022	\$8,081	\$8,660
Internal Revenue Service (IRS)	\$9,948	\$9,346	\$8,881	\$8,385
U.S. Mint	\$1,090	\$1,414	\$61	(\$156)
Bureau of the Public Debt (BPD) – Resources/Outlays include interest on the public debt	\$372,735	\$482,394	\$380,165	\$361,664
U.S. Secret Service (SS)	\$1,165	\$969	\$952	\$858
Office of Thrift Supervision (OTS)	\$239	\$242	(\$7)	\$13
TOTAL	\$442,165	\$552,780	\$403,703	\$385,324

* These bureaus operate on self-supporting revolving funds, and do not receive appropriations.

** Departmental Offices also includes the Office of Inspector General, Treasury Inspector General for Tax Administration, Working Capital Fund, Exchange Stabilization Fund, International Assistance Programs, Federal Financing Bank, Treasury Forfeiture Fund, Community Development Financial Institutions Fund, Financial Crimes Enforcement Network, Office of D.C. Pensions, and Treasury Franchise Fund.

PROGRAM PERFORMANCE RESULTS HIGHLIGHTS

This section presents an overview of Treasury's FY 2001 achievements toward our strategic goals. A detailed account of our efforts, including progress on all of the Department's 242 performance measures, can be found in the Department's FY 2001 Program Performance Report.

Treasury-wide Performance Summary				
Total Measures	Targets Met	Targets Not Met	Other (baselined or data not available)	Maximum or Improved Performance
242	166 (69%)	61 (25%)	15 (6%)	110 (46%)

Economic Mission: Promote Prosperous and Stable American and World Economies

The Secretary of the Treasury, as a principal economic advisor to the President, formulates and recommends domestic and international economic, financial and tax policies. Treasury policy offices work to achieve strategic domestic and international economic goals by analyzing, evaluating, and reporting to the Secretary on a wide range of developments that have consequences for the U.S. and global economies, and through their leadership in developing and implementing Administration policy.

Strategic Goal: Promote U.S. Economic Growth

The past year presented a particularly challenging policy environment as growth of U.S. real gross domestic product (GDP) slowed sharply in the second half of 2000, followed by the U.S. economy entering a recession in March 2001. The September 11 attacks clearly made the contraction worse. The Secretary of the Treasury and the Offices of Economic Policy and Tax Policy played important roles in developing and implementing the Administration's policy proposals for economic

recovery through stimulus and tax relief. The Office of Domestic Finance closely watched financial institutions and markets to assess U.S. financial system health and stability, and to ensure that financial disturbances in any part of the system did not ultimately threaten the health of the economy.

Tax Relief Enacted. Treasury played a key role in developing the Economic Growth and Tax Relief Reconciliation Act of 2001, signed into law by President Bush on June 7. This legislation created a new 10 percent tax bracket, and will provide an estimated \$421 billion in tax relief within the next ten years. By 2010, provisions of this law will double the \$500 child tax credit, provide relief from the marriage penalty, eliminate the estate tax, and reduce marginal tax rates. The marginal tax rate declines will enhance long-term growth. During the fourth quarter of 2001, the FMS distributed approximately 83 million advance payment checks, totaling almost \$35 billion in tax relief.

Economic Recovery and Stimulus. Treasury played an important role in the development of proposals for economic recovery and stimulus following the September 11 attacks, and the associated disruption of economic activity, and declines in consumer and business confidence. Treasury participated in the development of policies as the President and Congress moved quickly to provide immediate funding for rebuilding and recovery and immediate aid for the airline industry. Treasury also participated in the development of proposals for economic

stimulus. Early in October 2001, the President called on Congress to pass additional stimulus, with a focus on investment and business tax incentives, tax relief for lower income workers, and extended unemployment benefits.

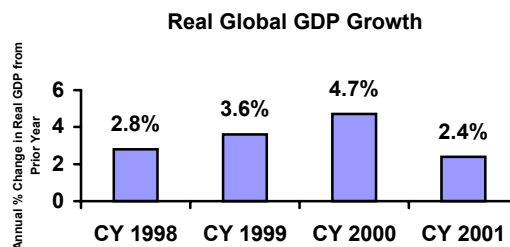
Long-Run Economic Growth. Treasury was actively engaged in the development and promotion of policies to enhance long-run growth in the U.S. economy, including promoting lower marginal income tax rates and discipline in Federal spending. Despite the short-run downturn, the long-run fundamentals of the U.S. economy remain strong. Inflation is at historically low rates and is expected to continue at low rates in the future, allowing macroeconomic policies to promote non-inflationary real growth. Treasury will continue to advocate spending discipline to assure that the recession-induced decline in the Federal budget position will be short-lived, with a return to an outlook for ongoing budget surpluses.

Financial System Stability. Two financial policy issues highlighted by the September 11 events were terrorism risk insurance and critical infrastructure protection. Treasury began working with Congress on a short-term federal intervention to reduce costs of insurance coverage, while ensuring that terrorism risk insurance remains available to all property and casualty insurance policyholders. To address physical and cyber threats to banking and finance, Treasury was asked to chair the Banking and Finance Committee of the Critical Infrastructure Protection Board, established by the President to protect critical sectors of the economy.

<p>Strategic Goal: Maintain U.S. Leadership on Global Economic Issues</p>
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The global economy experienced a marked slowdown since late last year. Economic growth weakened sharply in most regions of the world, accompanied by a decline in trade growth and deteriorating financing conditions in emerging markets. Restoring a strong and sustainable global economy was a fundamental objective of U.S. and Treasury international policies. Before the September 11 attacks, it appeared there was a reasonable prospect of recovery by late 2001;

however, later data indicated that the economic situation before the attacks was weaker than earlier projected in a number of economies, including the U.S., Europe, and Japan, and some emerging market economies in Asia and Latin America. In the two weeks after the attacks, the equity market in industrial countries fell sharply, but subsequently began to recover. In contrast, equity values fell in many emerging markets, as did commodity prices, particularly for oil. Exchange rate movements among major currencies were generally moderate.



Treasury continued its leadership efforts to strengthen the world economy through open markets and trade, to combat terrorist financing that threatens financial systems, to expand participation in the global economy to less technology advanced nations and poor countries, and to reform the international financial institutions that promote economic growth, development and financial stability.

Trade Promotion Authority (TPA). To restore confidence, expand trade, and open export markets, the Administration placed enactment of U.S. TPA at the top of its trade legislative agenda. Treasury worked with the White House and other agencies to urge the Congress to enact TPA legislation, which will significantly strengthen the President's authority to negotiate trade agreements. The House passed TPA in 2001, and the Senate will consider it in 2002.

Combat Terrorist Financing. Treasury launched the financial front in the war on terrorism and took the lead in global efforts to combat the financing of terrorism. The members of the G-7 (Group of Seven) nations pledged to improve monitoring of terrorist assets. The G-7 asked the 31-nation Financial

Action Task Force to focus on specific measures to block financing of terrorist networks, freeze terrorist assets, and criminalize the collection of funds for terrorism. By the end of the calendar year, 196 countries or jurisdictions around the world had committed to combat terrorist financing, 144 countries had orders in place blocking terrorist assets, and over \$68 million had been frozen globally.

Debt Relief for Heavily Indebted Poor

Countries. Treasury helped to add another 13 countries under the G-7 initiative to help the world's poorest countries reduce their debt burden if they commit to reform, and use savings to increase investment in the social sectors. The unmanageable debt burdens of these poorest countries has often prevented them from making investments to fight diseases, reduce poverty, and improve education. In calendar year 2001, Congress approved full funding of the U.S. pledge of \$600 million to this effort.

International Monetary Fund (IMF) Reform.

Treasury continued its efforts to reform the IMF so that it becomes an organization more consistently associated with success. Treasury pushed for fundamental reforms in the way the IMF does business and urged the IMF to improve its transparency and financial monitoring and to focus on its core areas of monetary, fiscal and exchange rate policy, and financial markets.

Financial Mission: Manage the Government's Finances

As the primary fiscal agent for the Federal government, Treasury manages the Nation's finances through collecting money due to the United States, making its payments, managing its borrowings, performing central accounting functions, and producing coins and currency sufficient to meet demand. The bulk of the Department's resources are devoted to collecting taxes and customs duties. Treasury collects approximately 98% of total Federal receipts.

Strategic Goal: Manage the Federal Government's Accounts

Treasury made significant improvements in managing the Federal Government's accounts. It provided central payment services to Federal program agencies, operated the Federal Government's collections and deposit systems, provided government-wide accounting and reporting services, managed the collection of delinquent debt, borrowed the money needed to operate the Federal government, and accounted for the resulting debt.

Government's Daily Cash Position. To ensure that the Government's cash management minimized risk and provided immediate flow and balance information, Treasury closely monitored the Government's receipts and payments and estimated the amount of cash needed daily by the Government for its anticipated payments. Effective management of the Government's daily cash position reduced the Government's borrowing costs.

Government's Financial Infrastructure. To strengthen the government's financial infrastructure and improve program management across government, Treasury continued to move the Government to an all-electronic Treasury for making Government payments and collecting Government receipts. Treasury also continued to maximize the collection of Government delinquent debt by improving its centralized debt collection services. In addition, a multi-year Treasury project has been revamping Government-wide central accounting systems and processes for reporting budget execution information to improve Treasury's and Federal agencies' access to information, reduce redundant reporting, and eliminate time-consuming reconciliations.

Funds Management and Investment. Treasury ensured the effective management and investment of funds in its custody and managed the \$2.5 trillion Federal Investment Program, providing security investment services for more than 200 funds for numerous Federal agencies. In addition, the Secretary of the Treasury managed the investment of several of the government's largest investment funds,

including Social Security, Highway, and Unemployment, which hold over \$1 trillion. For these funds, additional administrative and accounting services were provided on behalf of the Secretary.

Strategic Goal: Ensure all Federal Payments are Accurate and Timely

Over One Billion Payments Made. Treasury issued over one billion paper check and electronic funds transfer payments (EFT) to more than 100 million people. Payments were made on time and accurate 100% of the time. These disbursed payments were based on submissions from Federal program agencies responsible for certifying the accuracy, validity and legality of their payment requests.

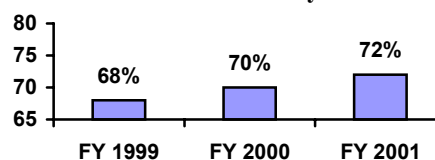
From Paper Checks to Electronic Payments. FMS continued to convert the Federal government's check payments to electronic funds transfer (EFT), in accordance with the Debt Collection Improvement Act of 1996, that requires most Federal payments to be made by EFT. For those individuals without a bank account, FMS designed the Electronic Transfer Account (ETA), a low-cost account that can be offered by Federally insured financial institutions with the same consumer protections available to other account holders. As of October 29, 2001, nearly 600 financial institutions offered ETAs at more than 16,000 office and/or branch locations, an increase from approximately 7,000 locations at the end of FY 2000.

Move to an All-Electronic Treasury. Treasury continued its efforts to determine the optimal payment-processing environment for the future in its move to an all-electronic Treasury for payments. The Electronic Money Program tested new payment and collection technologies using the Internet and card technology, as well as related technologies such as digital signatures and biometrics. The Program's purpose is to test these new technologies to determine their potential impact on Government fiscal operations over the medium and long term. Pilot programs were initiated to help Federal agencies modernize their payment activities, such as

using stored value cards on military bases and in Government hospitals.

The percentage of Federal payments (excluding tax refunds) made electronically (i.e., by EFT) increased. Excluding tax refunds, which are not subject to the Debt Collection Improvement Act, the percentage of electronic payments was 76%. The percentage of payments made electronically is expected to continue to increase, with expectation that the growth will be tempered by a policy adopted by Treasury that permits certain payment recipients to choose to continue receiving check payments, rather than face mandatory conversion to EFT. (Note: in the chart below, for annual comparison clarity, the 72% does not include tax relief for tax refund checks.)

Percentage of Treasury Payments and Associated Information Made Electronically



Strategic Goal: Provide Accurate and Timely Financial Information and Support the Government-Wide Implementation of Accounting Standards

Financial Reports. Treasury produced accurate and timely financial information. It issued the FY 2000 Financial Report of the U.S. Government in the March 31 statutory timeframe. During the year, Treasury's cash position and the Government's budget surplus and deficit information were reported on schedule 100% of the time in the following publications: Daily Treasury Statement, Monthly Treasury Statement, Treasury Bulletin, and U.S. Government Annual Report.

Federal Accounting Standards. Treasury, along with OMB and GAO, is a principal member of the Federal Accounting Standards Advisory Board (FASAB), which developed and issued three new accounting standards (for a

total of 22 standards as of October 2001). Additionally, the American Institute of Certified Public Accountants, an independent internationally recognized audit standard setting authority, recently recognized FASAB standards as “generally accepted accounting principles” or GAAP. The GAAP designation indicates that the Federal government’s accounting is reported using standards with the same degree of acceptance as those used in the private sector.

Monthly Financial Statement Closing. By the first of September, 2001, 11 of 25 Treasury bureaus and reporting entities within DO closed their monthly financial records within three business days of month’s end, successfully meeting a key strategic objective of providing financial information to program managers in a time and form that is useful for decision-making. This effort now serves as a model for all Federal agencies as Treasury and OMB work to improve the timeliness of financial reporting government-wide.

Audited Material Weaknesses. A critical measure of good financial information is the number of material weaknesses identified by the auditor or GAO, which prevented the Federal government from receiving a clean audit opinion on the Financial Report of the United States Government. Material weaknesses remained constant at seven in the FY 2000 Financial Report of the United States Government. Not all these material weaknesses are within Treasury’s purview to fix, as they are problems specific to a few key Federal agencies contributing information. The statutory due date for the FY 2001 Financial Report of the United States Government is March 31, 2002.

Strategic Goal: Collect Revenue Due to the Federal Government
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Although Treasury has not developed an outcome measure of progress in collecting all revenue due the government, there are indicators of progress in the efforts of the IRS, FMS and Customs.

IRS Tax Collections. In collecting income taxes due, both net revenue collected (\$1.873 trillion) and total enforcement revenue collected

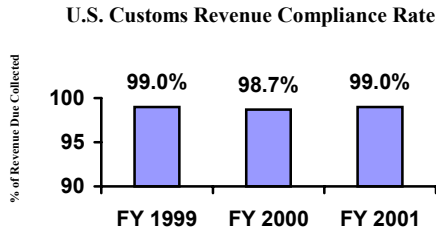
(\$33.8 billion) are indicators for IRS. While relatively even with FY 2000, both are subject to drivers beyond the control of IRS, such as the level of economic activity and offsets from the 2001 tax rebate.

IRS has targeted strategies to address non-compliance: the matching of information returns with reported income, minimizing tax filing fraud in Earned Income Tax Credits, reducing the pyramiding of trust fund taxes by businesses, and establishment of tax fraud detection centers in IRS service centers. Strategies to stabilize traditional income tax compliance activities include development of risk-based compliance intervention techniques, reengineering the collection and examination functions, and centralization of Innocent Spouse and Offers in Compromise activities.

FMS Delinquent Debt Collection. Treasury’s delinquent debt collection program yielded almost \$3.2 billion in FY 2001, an increase of over \$570 million compared to the FY 2000 collections. All collection tools of the debt program showed increased collection as evidenced by administrative offsets increasing by 48% over FY 2000 levels, and cross-servicing collections exceeding FY 2000 collections by 38%. FMS has used two major strategies to improve the collection of delinquent debt. The first has been to provide effective and efficient debt collection and debt management services to all Federal agencies, and the second, to work closely with Federal agencies to identify eligible debts and facilitate referral of that debt to the Office of Debt Management Services at FMS for collection.

Customs Revenue Gap. Customs collected 99% of the sum of the total revenue payment and net revenue underpayment. Customs focused efforts on reducing the revenue gap by improving data accuracy, availability, reliability and correcting automated systems weaknesses associated with revenue collection. The Customs revenue collection measure is calculated by using the net revenue underpayment estimate and total revenue payment obtained operationally. It is the total revenue payment as a percentage of the sum of the total revenue payment and net revenue underpayment. The sum in the

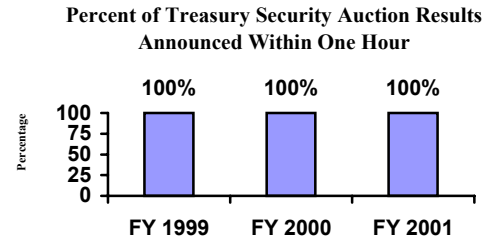
denominator of the calculation reflects the total amount that Customs could have collected if all imports were compliant in reporting applicable duties, taxes and fees.



Strategic Goal: Cost-Effectively Finance the Government's Operations

Over the past year, Treasury was able to achieve this goal through refinancing operations, which reduced interest expense, and improvements to auction processes, which ensured that the Treasury's financing operations remained competitive and cost-effective. The operational components of financing the government's operations included the auction and issue of Treasury marketable debt securities, the buyback of Treasury marketable securities, and oversight of the commercial book-entry system.

Treasury Securities Auctions. The Bureau of Public Debt conducts approximately 160 auctions a year, and issues more than \$2 trillion of securities to finance government operations. Treasury securities are broadly distributed to all financial markets throughout the world. To maintain an efficient market for Treasury securities and to minimize uncertainty in these markets, it is crucial that securities auctions are completed and results announced as quickly as possible. The goal to announce auction results within one hour of close of the auction 95 percent of the time was met again in 2001. Starting in FY 2002, the goal will be further tightened to 25 minutes.



The integrity of the auction process is paramount to the successful conduct of our financing operations. The Treasury securities market expects that the auctions will be conducted flawlessly and that the results will always be accurate. The objective, met in 2001, was to never make an error that would require Treasury to amend its auction results.

Buy-back Program. The buyback program is a debt management tool that has allowed the Treasury to shorten the average maturity of its marketable debt. Securities with higher interest rates are retired in favor of issuance of shorter-term securities with lower rates. Last year, Treasury conducted 24 buyback operations that bought back approximately \$30 billion of debt securities.

Strategic Goal: Improve the Efficiency of Production Operations and Maintain the Integrity of U.S. Coin and Currency

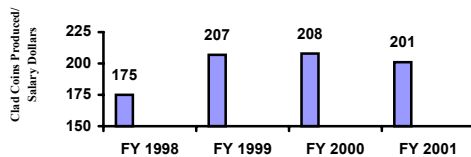
Coin

Through closely guided planning efforts, the Mint met the target for controllable costs to produce circulating coinage. The efforts to control costs improved the productivity of U.S. coin manufacturing operations. The Mint and Federal Reserve seasonal inventory targets were met 100% of the time. The Mint's Federal Reserve Board Customer Satisfaction Survey results exceeded the target by 2%. The survey results and the reliable coin inventory confirmed achieving a satisfactory level of integrity and efficiency.

Coin Inventory Levels. The Mint met targeted coin inventory levels each week. A seasonally

adjusted inventory target was used since fluctuations in the demand for coins are somewhat predictable at set times during the year. Steps taken to meet record demand levels (27.2 billion coins shipped in FY 2000) coupled with decreases in the demand for coinage facilitated the Mint's achievement of this goal.

U. S. Mint Productivity



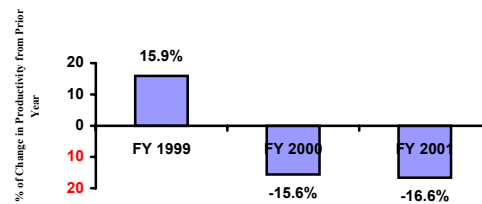
Currency

The Bureau of Engraving and Printing (BEP) achieved certification of its currency quality management systems in Washington, DC and Fort Worth, Texas. The Bureau's quality management systems met and/or exceeded rigorous international standards. This is indicative of Treasury's commitment to provide a consistently high quality security product on which the public can rely.

Cost Of Currency Notes. The actual production cost of currency notes, which includes direct labor and materials and applied manufacturing overhead, was slightly more than one percent below target in 2001. This favorable result was due primarily to lower than anticipated spoilage brought about by the fine-tuning of currency manufacturing operations during the successful ISO 9001 quality certification effort.

BEP Productivity. Overall, productivity at BEP decreased by 16.6 percent. The decrease in productivity in both programs was due to a decrease in customer requirements from the previous year. The productivity decrease in currency was greater than planned, due to a second reduction in the currency order during the year. (Productivity is calculated using Bureau of Labor Statistics' methodology that measures output per labor input.)

BEP Productivity



New Currency Designs. The BEP strategy has been to focus preparations for the production of the next generation of currency designs. BEP is actively engaged in the development of a new design for the next generation of currency notes to be introduced into circulation as early as 2003. Additional sophisticated counterfeit deterrent features are being considered. Production of the new series currency design requires a multi-million dollar capital investment in printing technology and support process. A modest expansion at the Western Currency Facility is underway to accommodate this new technology. This technology will enable BEP to support the initiatives of the Advanced Counterfeit Deterrence Program as part of the Treasury's objective.

Law Enforcement Mission: Safeguard Our Financial Systems, Protect Our Nation's Leaders And Secure a Safe and Drug-Free America

Treasury plays a critical role in Federal law enforcement efforts, helping foster a safer nation by combating terrorism and violent crime, protecting our borders, preventing drug smuggling suppressing counterfeiting, fighting money laundering, preventing financial crimes, and training the vast majority of Federal law enforcement personnel.

Strategic Goal: Reduce Violent Crime and the Threat of Terrorism

Reducing Violent Crime

Treasury's law enforcement bureaus also continued their efforts to reduce violent crime in the U.S. According to the Department of Justice

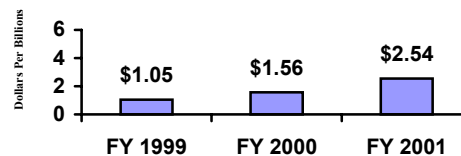
(DOJ), the overall level of crime in the U.S. last year decreased by 3.3 percent. In accomplishing their missions, the Department of the Treasury's law enforcement bureaus contributed to the overall reduction.

Project Safe Neighborhoods. The Bureau of Alcohol, Tobacco and Firearms (ATF) fought violent crime through its enforcement of Federal laws pertaining to firearms, explosives and arson, by imprisoning violent offenders, reducing criminal misuse of firearms, explosives and fire, and through partnerships and community outreach efforts. One of the major new strategies has been Project Safe Neighborhoods, a crosscutting, comprehensive firearms enforcement strategy with the DOJ. Through multi-agency partnerships, the program combines enforcement of existing firearms laws with a focused DOJ prosecution program to fight gun violence in each of the 94 Federal judicial districts. A key component of this joint strategy involved comprehensive crime gun tracing to develop critical intelligence and investigative leads on illegal sources of firearms entering the various communities.

Over the last few years, ATF has developed a number of technology solutions to improve the response time and accuracy of firearms tracing. These advances, coupled with the scientific analysis of firearms crimes and trafficking patterns, have been invaluable to law enforcement's ability to apply resources where most needed.

Uniform Crime Reports Data on Gun Violence. ATF has also been working with the DOJ to monitor Uniform Crime Reports data on gun violence in specific cities where Project Safe Neighborhoods and other Integrated Violence Reduction Strategy crime fighting ATF projects are implemented, for comparison with like cities in which none of these special resources are applied. This comparison should be a valid indicator of the impact of ATF violence reduction efforts. This proposed new measure would replace the "output" measure shown in the table below.

Crime-Related Costs Avoided



Reducing the Threat of Terrorism

As a result of the events on September 11 and the continuing threat of terrorism against the United States, Treasury expanded its role in combating terrorism.

Economic Sanctions. After the attacks of September 11, the role of the Office of Foreign Assets Control (OFAC) in fighting terrorism was expanded through the Executive Order 13224 and the PATRIOT Act. OFAC has administered economic sanctions against the seven state sponsors of terrorism (Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Syria), specific foreign terrorist organizations (such as Hamas and Al-Qa'ida), and against individual Specially Designated Terrorists. Property and interests in property owned by those organizations and individuals are blocked, and all transactions including the making or receiving of any contribution of funds, goods, or services to or for their benefit are prohibited. Since September 24, 164 foreign entities and individuals have been added to the new list of Specially Designated Global Terrorists.

Disruption of Trafficking Activities. As a part of the Customs Anti-Terrorism initiative, Outbound Programs procured \$10 million in Non-Intrusive Inspection equipment for northern border security. This equipment includes X-ray vans, mobile inspection systems, contraband detection kits and hand-held vapor tracer detectors that can be used to detect explosives as well as narcotics. This equipment will be utilized to prevent the movement of narcotics, weapons of mass destruction and other contraband. Investigative efforts significantly disrupted international trafficking activities, particularly in regard to the illegal export of such items as military aircraft and missile parts,

unmanned aerial vehicle components, night vision equipment, munitions items, and fiber optic gyroscopes.

Anti-Terrorism Training. Customs began to address the critical issue of Anti-Terrorism training. Currently, Outbound Programs conduct a three and one half-day seminar on Aviation Safety and Security/Anti-Terrorism.

<p>Strategic Goal: Combat Money Laundering and Other Financial Crimes</p>
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Treasury continued as the lead U.S. government agency setting anti-money laundering policy and investigating financial crimes. Although, at present, there are no clear and accepted measures for the magnitude of money laundering and many financial crimes, our programs succeeded in producing significant changes in the anti-money laundering laws of a number of countries around the world. This has made it more difficult for money laundering and financial criminals to find safe haven to launder illicit proceeds.

Combat Money Laundering. In September 2001, Treasury released the *2001 National Money Laundering Strategy*. The *2001 Strategy* articulated five goals: (1) focus law enforcement's efforts on the prosecution of major money laundering organizations and systems; (2) create and implement a uniform system that measures the government's anti-money laundering results; (3) maintain an effective regulatory regime that denies money launderers easy access to the financial sector; (4) enhance Federal, state, local, and international coordination in the fight against money laundering; and (5) strengthen international efforts to combat money laundering around the world.

Treasury led interagency efforts to strengthen the international effort to combat money laundering and supported the Financial Action Task Force in reviewing and evaluating non-compliant countries and territories. As a direct result of this work, several major jurisdictions, including Russia, Israel, and the Philippines, that previously lacked anti-money laundering laws, now have comprehensive laws in place.

Additionally, the Bahamas, Cayman Islands, Liechtenstein, and Panama have significantly revised and strengthened their anti-money laundering rules and regulations.

Blocking Terrorist Assets. Following the terrorist attacks of September 11, Treasury led the international effort to trace the funds terrorists use to finance their activities and to block and seize these funds. Because of the work of the Office of Foreign Assets Control (OFAC), the Foreign Terrorist Asset Tracking Center, and the U.S. Customs-led Operation Green Quest, asset blocking orders during calendar year 2001 were issued against 164 individuals and entities.

Forfeited Revenue. One measure of how Treasury disrupts the flow of money derived from illegal activities is the application of forfeiture to the infrastructure of criminal enterprises, thereby limiting the ability of criminal organizations to continue their illegal activities. A total of \$258 million in forfeited revenue was deposited in the Treasury Forfeiture Fund. Approximately 78% of the forfeited cash were resulted from high-impact cases (those with currency seizures in excess of \$100,000), exceeding the target goal of 75%.

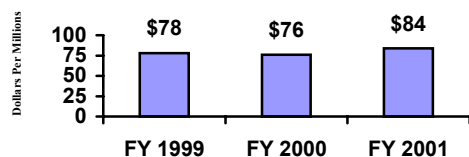
Financial Crimes. Treasury enforcement bureaus worked cooperatively with the Department of Justice, and other state and local enforcement agencies to investigate and prevent money laundering and other financial crimes. Federal, State, and local enforcement officials accessed Bank Secrecy Act data through the FinCEN Gateway program to support more than 9,000 cases, almost a 20% increase over FY 2000. In addition, FinCEN supported over 4,000 investigations and alerted investigative agencies over 2,000 times that one or more investigative agencies were interested in the same subject.

Project Colt Targeted Telemarketing Fraud. Customs participated in Project Colt, an international task force, based in Montreal, Canada, that targets telemarketing fraud and has identified over 1,200 U.S. and Canadian victims of telemarketing fraud. Project Colt task force members have seized and returned \$10 million

to U.S. and Canadian victims. Nearly \$700,000 was seized or recovered under the auspices of Project Colt, and seven international bank accounts were frozen.

Anti-Counterfeiting Measures. The Secret Service worked to stifle counterfeiting and financial crimes involving the currency, obligations, and securities of the U.S. There was \$84 of counterfeit currency passed on the public for every million dollars of genuine currency in circulation. This represents \$6 less of counterfeit per million dollars of genuine currency passed on the American public compared to the goal. Overall, there was \$47.5 million in counterfeit U.S. currency passed domestically and \$1.5 million passed in foreign countries.

Counterfeit Passed Per Million Dollars
of Genuine U.S. Currency



Strategic Goal: Protect Our Nation's Borders and Major International Terminals from Traffickers and Smugglers of Illicit Drugs

Dismantling Drug Smuggling. Interdicting illegal drugs entering the U.S. is a key component of the Nation's drug control strategy. Customs worked to disrupt and dismantle drug smuggling organizations through the implementation of a unified intelligence, interdiction, and investigative effort. Although the total flow of narcotics into the country remains unknown, Customs continues to make significant seizures in pounds seized, number of seizures, and pounds per seizure. Data for pounds seized per number of seizures indicates that we are utilizing our resources more efficiently to make larger seizures, and thus, have more impact on the overall supply. By focusing its investigations, Customs was successful in arresting more significant members of the targeted drug smuggling organizations and achieving more towards the strategic goal of disrupting the illegal activity. There are two

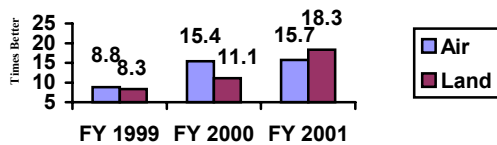
major elements to Customs strategy to protecting the nation's borders and major terminals from drug traffickers: air and marine, and land border efforts.

Air and Marine Efforts. The consolidation of Customs' air and marine resources, along with the continued presence of Customs' air assets in Hermosillo, Mexico, and Jacksonville, Florida, yielded significant results in 2001. Customs successfully provided a flexible response to the drug smuggling threat on the northern border of Mexico, in the Bahamas and the Southeast United States. Along the northern border of Mexico, Customs Citation and P-3 aircraft assisted Mexican National interdiction forces in the seizure of thousands of pounds of marijuana and the arrest of numerous suspects. These efforts resulted in the eventual dismantling of an active smuggling organization based in Hermosillo.

Land Border Efforts. Customs deployed over 64 large-scale Non-Intrusive Inspection (NII) systems as a part of its 5-Year Technology Plan. NII technology allows the x-ray inspection of large containerized cargo, and thus does not require individual cargo pallets to be broken down and manually inspected. These NIIs are active at ports of entry along the southern tier of the U.S. and select seaports on both coasts. NII technology resulted in 265 seizures consisting of over 311,000 pounds of narcotics. This is a substantial increase from the 166 seizures totaling approximately 120,000 pounds recorded in FY 2000.

Customs also continued to focus efforts on gathering tactical information on passengers who may require a higher degree of inspection or examination upon their arrival in the United States. The Automated Targeting System – Passenger is a completely integrated computer system used by Customs officers to select individuals who might possibly be involved in international crime, including terrorist activity and narcotics trafficking.

Targeting Efficiency in the Air/Land Vehicle
Passenger Environment
(times better than random selection)



Strategic Goal: Protect Our Nation's Leaders and Visiting Dignitaries

Secret Service Protective Mission. The ultimate mission of the Secret Service is to ensure the safety of persons authorized Secret Service protection. The Secret Service met its responsibility of providing security to all its protectees and related facilities during FY 2001.

The protective threat facing the Secret Service has broadened to include individuals and groups operating outside their management. These individuals and groups have access to more sophisticated weapons, and are using “front” organizations to finance their activities. They are indiscriminate in their use of violence and often seek public attention for their actions. The low cost and availability of advanced technology and the proliferation of weapons of mass destruction have further increased dangers with which the Secret Service must contend.

In its effort to perform its protective mission, the Secret Service employs a variety of procedures to ensure the safety of its protectees. These procedures directly relate to the primary strategies that include the proactive use of technology and protective intelligence, and the effective use of resources based on risk assessment and risk effectiveness, the Secret Service continually evaluates, modifies, and improves its policies and procedures to adapt to our complex world.

Protectee Travel. Travel by Secret Service protectees places considerable demands on Secret Service resources. The effort required to provide security increases dramatically when a protectee travels compared to when a protectee remains at his or her residence. The Secret Service measures protectee travel activity in

terms of travel stops. A stop is considered a city or other definable sub-division visited by a protectee. The Secret Service provided physical protection at over 6,000 travel stops in FY 2001.

Protective Intelligence Cases. A major component of Secret Service protective operations are the protective intelligence cases worked by field agents. These cases involve an assessment of individuals or groups that may pose a threat to protectees of the Secret Service. The Secret Service closed 5,200 intelligence cases in FY 2001, an increase of 19 percent over FY 2000.

Strategic Goal: Provide High-Quality Training for Law Enforcement Personnel

Law Enforcement Training Strategies. The strategies associated with achieving this goal focus on the quality of instruction and of the training environment. FLETC recognizes the need for instructors to have had operational experience with a representative mix of the partnering organizations. The FLETC is exploring innovative measures to attract and retain an instructional force that reflects a combination of recent agency experience (i.e., re-employed annuitants), familiarity with current agency procedures (i.e., agency detailees), and corporate knowledge (i.e., FLETC permanent staff). In addition, efforts are ongoing to ensure that the entire instructional cadre is exposed to both the latest thinking in adult learning theory and the state-of-the art technological advancements that complement and facilitate the instruction.

The FLETC’s attentiveness to the comments of its partner organizations and their students is perhaps the single most important factor in maintaining a high level of satisfaction. Both basic students and advanced students gave the FLETC very high ratings on the Student Quality of Training Survey. In addition, the FLETC continually solicits feedback from the 74 organizations that currently partner with the FLETC to ensure that both new and experienced law enforcement personnel receive high-quality training.

Management Enabling Goal: Continue to Build a Strong Institution

To effectively meet Treasury's programmatic goals, the Department needs strong and efficient management processes and administrative support. In addition, a focus on customer and employee satisfaction is key to implement a "balanced" approach to our operations.

Strategic Goal: Support the Achievement of Business Results

Treasury instituted processes to address workforce planning issues and improve recruitment efforts, achieved an unqualified audit opinion, reduced the number of material weaknesses, exceeded its procurement competition and small business goals, and worked to ensure that its information systems were secure.

Recruit and Retain High-Caliber Employees.

Treasury took innovative approaches to address critical emerging issues in human resources, to improve the Department's position as a competitive employer, and to better achieve organizational goals. Among its accomplishments, Treasury identified actual and anticipated skills gaps resulting from increased retirements and emerging technology, and then developed programs designed specifically to meet these needs. The Department obtained a permanent excepted service hiring authority for our enforcement area to target and readily hire high-quality individuals for work related to counter-terrorism, anti-money laundering and foreign assets control. Treasury also exceeded the target to develop 25% of the *HR Connect* product (a human resources information technology system) by developing 28.5%. And Treasury developed a department-wide safety and health system to track safety and health incidents, as well as Worker's Compensation claims.

Equal Opportunity. Treasury continued to make progress in attracting retaining and developing a diverse workforce. The minority

representation of the Department increased to 35.3% from 34.91% in FY 2000. This is 13.3% above the minority representation in the Civilian Labor Force. The representation of women in the Department remained at 58%, well above their representation of 46% in the Civilian Labor Force. The Department also made progress in increasing the efficiency of the EEO process through a 46% increase in the number of bureaus with Alternative Dispute Resolution programs.

Strong Financial Management. Treasury received for the first time an unqualified audit opinion on its financial statements for FY 2000 and reduced the number of open material weaknesses to 29 at the end of FY 2001 from the FY 1998 baseline year of 49. Treasury also exceeded the goal of 62% of bureaus in compliance with Federal Financial Management Improvement Act financial systems requirements by achieving 71% compliance (also above the FY 2000 of 54%).

Capital Investments and Asset Management.

Treasury's information technology (IT) capital investment portfolio consists of a number of major projects that include both bureau and enterprise initiatives. Treasury's Capital Investment Review Board (CIRB) approved eight IT projects, denied one, and regularly monitored the nine IT projects in the CIRB portfolio. Emphasis was on the control phase of investment management. The CIRB also made significant progress by instigating the development of complete IT portfolios for the U. S. Mint and Secret Service. For non-IT assets, the CIRB approved two business cases, denied one, and continued regular monitoring of nine projects.

Treasury's system for tracking cost, schedule, and performance data required by the Clinger-Cohen Act is the Information Technology Investment Portfolio System (I-TIPS). However, as in FY 2000, adequate cost, schedule and performance data in many cases have not been entered in I-TIPS. Therefore, consistent results data on IT projects are unavailable.

Acquisition Program. Treasury spends over \$3.1 billion annually in contractor goods and services in order to achieve critical program missions, and is committed to maintaining a strong acquisition program. Treasury exceeded its 80% goal of using purchase cards to purchase items less than \$2,500, with a 98% result. Treasury also exceeded its competition goals, with 89% of contract dollars over \$25,000 competed (target of 75%), and 86% of contract actions over \$25,000 competed (target of 70%). In the small business arena, Treasury exceeded its goal of 23% of appropriated procurement dollars awarded to small businesses, with a 34% result.

Continuity of Operations. In FY 2000 and 2001, a number of departments and agencies suffered major breaches of security, both physical and information technology-related. In response, Treasury commissioned a number of security studies to assess its own security programs and identify means for improving the protection of Treasury employees, systems, information, and facilities in a rapidly changing security environment. Treasury developed action plans to implement many of the study recommendations. Improvements were made in every security functional area to improve program integrity, accountability, and product and service delivery. However, much work remains to be done. While the improvements made are sustainable, implementing all the actions identified in the current plan of action will require discipline and prioritization to maximize the use of limited resources in the year ahead.

Treasury also surveyed all the bureaus to determine the percentage of certified and accredited systems (as defined by OMB). Treasury had set a target of 20% for FY 2001; the results indicated that 15.5% of Treasury's systems were certified and accredited (an improvement over FY 2000, when only 7% of Treasury's systems were certified and accredited to operate).

Improve Customer Satisfaction

Several Treasury bureaus continued making progress in improving customer satisfaction with their services and products:

- **IRS.** On the American Customer Satisfaction Index Survey, taxpayers gave the IRS a 46% customer satisfaction favorability rating (compared to a 43% rating in FY 2000 and a 37% rating in FY 1999). The new IRS structure better served taxpayers through four distinct operating divisions, each charged with full end-to-end responsibility for serving a set of taxpayers with similar needs. While the full effects of the IRS reorganization on the taxpaying public will not be known for several years, public perception of the IRS customer satisfaction has been steadily rising over the last three years.
- **Customs.** Customs conducted six surveys of airline travelers and saw an improvement in professionalism by inspectors by 2% over FY 2000. It also expanded the Passenger Service Representative (PSRs) program from 42 to 43 PSRs at 17 major U.S. airports, and from 3 to 4 PSRs at U.S. land borders. **Mint.** For its circulating coinage program, the Mint received an 87% satisfaction level on its Federal Reserve Board Customer Satisfaction Survey (above both the target of 85% and the FY 2000 level of 83%). For its numismatic program, the Mint received an American Customer Satisfaction Index score of 88, exceeding both its FY 2001 target of 85 and its FY 2000 score of 84. The FY 2001 result is the highest index score the Mint has received in six surveys conducted in the past seven years.
- **FLETC** continued to measure the rate of satisfaction of its students. It received a 99.9% rating on its "Student Quality of Training Survey" for basic training, well above its target of 90%, and a 100% rating on a similar survey for advanced training, again above its target of 90%. These results

also were above FY 2000 ratings of 99.2% for both surveys.

- **FMS** assessed satisfaction of payment customers with both check and electronic payments. Surveys were distributed by FMS's Regional Financial Centers to Federal agencies, with 100% reporting an overall satisfaction level of satisfied or better, exceeding the 99% target. The survey had a response rate of 32%.

Improve Employee Satisfaction

Several Treasury bureaus surveyed their employees and improved the workplace environment:

- At the **IRS**, the overall level of employee satisfaction was 51%. The survey results fell below the target of 60% and below the FY 2000 level of 59%; the decline can most likely be attributed to the effects of the IRS reorganization. The IRS Commissioner has made improving employee satisfaction the responsibility of each individual manager (an element in each manager's performance plan) applicable to every Operating and Functional Division. Those individual workgroup meetings are taking place now, and the results will be seen when the 2002 survey is administered beginning in April 2002.
- **FLETC** exceeded its 65% target on its Employee Satisfaction Survey, receiving a 78% approval rating (with a survey return rate of 56%).
- To follow up on its FY 2000 survey, **BEP** conducted focus groups and then appointed project managers to shepherd the development of improvement initiatives in the areas identified by the survey and focus groups.
- An Office of Personnel Management-administered survey at **FMS** in FY 2000 found their level of employee satisfaction higher than government and private sector averages, with results at 66%. Based on the survey and senior management's meetings

with employees, FMS worked to address employee concerns about training.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Systems Compliance

The Federal Financial Management Improvement Act (FFMIA) mandates that agencies "... implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States government standard general ledger at the transaction level."

Based on the results of financial statement audits and management assessments conducted over the past three years, it was determined that six bureaus were not in substantial compliance with these requirements. The bureaus with continuing non-compliance are the Internal Revenue Service (IRS), FMS, Mint, OCC, and U.S. Customs Service (Customs). Each of them has prepared system remediation plans designed to achieve compliance at the earliest possible date. The Department receives and reviews quarterly progress reports on these plans, and regularly discusses such progress with the Office of Management and Budget and all relevant audit entities.

U.S. Secret Service and DO are now considered to be FFMIA-compliant, as all of their remediation actions were completed effective October 1, 2001.

Management Controls

As discussed in greater detail elsewhere in this Accountability Report, at the end of FY 2001, the Department had 29 "material weaknesses" in various aspects of the overall control environment, as defined in the Federal Manager's Financial Integrity Act (FMFIA). Bureaus having one or more material weaknesses include the IRS, Financial Management Service, U.S. Mint, DO, OCC, and the Federal Law Enforcement Training Center. These weaknesses encompass serious

shortcomings in such areas as processing controls, automated systems security, physical security, continuity of operations planning and the quality and accuracy of financial information.

For every material weakness, as well as for every lesser issue which has resulted in an audit finding and recommendation, management has imposed the need for specific corrective action plans to be developed to resolve the identified shortcomings as expeditiously as possible. The implementation of corrective action plans receives continuous oversight at the bureau level, and quarterly progress reports are prepared and distributed to executive management throughout the organization. Significantly, in the two years since the beginning of FY 1999, the Department has achieved a 52% reduction in the number of material weaknesses (from 60 to 29 weaknesses).

Compliance with Laws and Regulations

The primary laws and regulations relevant to this section of the Accountability Report include the CFO Act, FMFIA and FFMIA, as previously discussed. Additional requirements include: Government Auditing Standards issued by the Comptroller General of the United States, OMB Bulletin No. 01-02 Audit Requirements for Federal Financial Statements, and various requirements under Federal Financial Management Systems Requirements (FFMSR). Several bureaus do not comply with one or more of these laws and/or regulations, including the IRS, Mint, Customs, FMS, and OCC. These entities' financial systems are not adequately integrated to properly support fiscal management of program delivery, as well as budget execution functions, and internal and external financial reporting requirements.

For every instance of non-compliance, corrective action plans have been developed and are being tracked by operating and executive management, as was discussed above for material weaknesses and audit findings and recommendations. The Department continued working with all non-conforming bureaus in order to refine their remediation plans as

necessary and to expedite the realization of substantial conformance.

Major Management Challenges

Each year, the Office of Inspector General (OIG) and the Treasury Inspector General for Tax Administration (TIGTA) organizations separately prepare and communicate to Congress lists of the major challenges faced by management, as seen from the audit perspective. For the most part, there is a high degree of overlap between the items on these lists and the areas having material weaknesses, as well as with other lists of challenges prepared by the General Accounting Office. For the challenges identified by the OIG, management has tracked the 183 related audit reports issued from January 1998 through the end of FY 2001. 121 of these reports have been resolved in their entirety, and, during FY 2001, bureau management implemented 70% of planned corrective actions. For the IRS, 102 of the 311 reports issued since 1994 by TIGTA and its predecessor, the Office of the Chief Inspector, have been closed. During FY 2001, IRS management implemented 69% of its planned corrective actions.

FUTURE EFFECTS ON EXISTING, CURRENTLY-KNOWN DEMANDS, RISKS, UNCERTAINTIES, EVENTS, CONDITIONS, AND TRENDS

Alcohol, Tobacco and Firearms (ATF)

ATF faces additional physical and security challenges as a result of the increased terrorist threat now facing our nation. To meet those challenges, ATF has identified specific requirements to prepare for and mitigate the effects of a future terrorist attack. Funds have been requested to provide operating capability for the Headquarters Emergency Center, Emergency Management Program planning; a medical monitoring program to evaluate the physical and psychological impacts of terrorist events on our employees (including exposure to

hazardous materials); and headquarters and field security enhancements.

The need for a Headquarters Emergency Center and Emergency Management Program planning is well established in Executive Orders, Presidential Decision Directives and Treasury Directives that require the establishment of effective procedures to prevent, minimize, and respond to losses of critical business functions. Those requirements include E.O. 12656; PDD-62; PDD-63; E.O. 13010; and TDP 71-10. As evidenced by recent terrorism acts, planning for mitigation of effects and prevention of losses is necessary for the government to continue.

The recent terrorist assaults highlighted the need for an employee medical monitoring program. It created a serious risk for ATF law enforcement and other personnel being exposed to hazardous products during the New York City Trade Center incident and in subsequent investigations and related activities in NY and Washington, DC.

The importance of enhancing physical security can not be overemphasized. ATF has a need to significantly enhance security in Washington D.C. offices, two major operational centers, the National Tracing Center in West Virginia, and in many of ATF's field offices which are housed in commercially leased buildings.

U.S. Customs Service (Customs)

Customs has formulated plans for systems modernization and has included requests for funding in its budget submissions for the last several years. One part of the modernization initiative will rely on account management to streamline the commercial import process, lower the cost of trade compliance, and increase customer service for the trade community through faster cargo release and easier payment options. The initiative will also help to correct material weaknesses in core financial systems and avert degradation or failure of operating systems. Past delays in funding and implementing systems modernization has been perceived to be the most significant future source of risk and uncertainty in Customs operations. Customs has now received \$300

million in funding for FY 2002, specifically designated for the Automated Commercial Environment (ACE), the central part of modernization. Based on the FY 2002 appropriation and the promise of future funding, the Commissioner of Customs has recently set a goal of four years for the completion of the ACE project.

In another area, the Continued Dumping and Subsidy Offset Act of 2000 was passed by Congress this year and states that duties assessed in accordance with a countervailing duty (CVD) order, an antidumping duty (AD) order, or a finding under the Anti-dumping Act of 1921 shall be disbursed annually to affected domestic producers for qualifying expenditures. Duties assessed in FY 2001 have been processed for distribution. This distribution may have an impact on Customs financial statements.

Part of the difficulty for Customs in implementing the Act is that it does not address the issue of what to do if Customs distributes the funds and then the importer protests the AD/CVD case and the protest is upheld. If this happens, Customs may have to pay for the refund to the importer from other funds since the AD/CVDs have been disbursed to domestic producers. Also, if Customs is required to disburse the monies to the affected domestic producers before final liquidation of all underlying entries, erroneous liquidations by Customs could result in duty refunds and disbursements in excess of the AD/CVDs collected. Customs has determined that it will bill the domestic producer when these types of overpayments occur.

Bureau of Engraving and Printing (BEP)

BEP is undergoing major improvements to the infrastructure of its Washington, DC facility. Additionally, planning for the next generation design of currency notes has necessitated an extensive upgrade to building support systems (e.g., power distribution) in Washington, and an expansion of the Western Currency Facility in Fort Worth, TX. BEP is also initiating an equipment replacement program, upgrading and replacing fully depreciated and aging equipment at both facilities with state-of-the-art printing

and processing equipment to improve quality and minimize costs.

External environmental factors that may affect BEP include dollarization, which is the adoption of the U.S. dollar as the unit of currency by foreign countries, the dollar coin, the Euro, and competition with private companies for designing and printing U.S. postage stamps. New technology may also affect the Bureau, as the use of substrates and other methods for extending the life of currency could result in a decrease in requirements. In addition, the increasing availability of more sophisticated scanning and printing technology may affect future currency design efforts.

Internal Revenue Service (IRS)

The IRS faces many challenges and opportunities as it modernizes, including implementation of the Restructuring and Reform Act of 1998 (RRA 98). The IRS is creating a modernized structure built around taxpayer needs. This structure includes revamped business practices, four operating divisions that focus on customer needs, management roles with clear responsibilities, balanced measurements of performance, and new technology. Over the last several years, the General Accounting Office (GAO) and the Treasury Inspector General for Tax Administration (TIGTA) have issued reports identifying management challenges and high-risk areas within the IRS. The new management structure and technology focus, created as part of IRS' modernization efforts, is designed to address and reduce these high risks and mitigate their chance of occurring in the future.

The following list summarizes these challenges and risks as of September 30, 2001: tax filing fraud, systems modernization efforts, receivables, financial management, improving security controls over information systems, protecting taxpayer rights and compliance activities, filing season, customer service, impact of global economy on tax administration, modernization of IRS organizational restructuring, revenue protection, and the Implementation of the Government Performance and Results Act (GPRA).

Success in achieving IRS' mission, goals, and objectives is influenced by the environment in which we operate and determines the strategies we use to achieve our goals. Each of the IRS' major organizational units conducted an assessment of their internal and external environment to identify trends, issues and problems (TIPS) that were affecting their business operations. They identified dozens of TIPS and developed strategies to address them. The most significant TIPS have been organized around 12 themes: Service to Taxpayers, Communication with Taxpayers, Pre-Filing Agreements, Electronic Tax Administration, Complexity of the Tax Law, Global Trading, Compliance Services, Areas of Low Compliance, Measuring Compliance, Human Resources Issues, Technology in Support of Business Operations, and Shared Services in Support of Business Operations.

Federal Law Enforcement Training Center (FLETC)

As a result of the September 11, 2001 terrorist attacks a significant number of the Federal Law Enforcement Training Center's (FLETC) 74 partner agencies are requesting significant amounts of additional training for new law enforcement officers. The FLETC has conducted extensive planning for responding to these training requirements as they are communicated from the agencies.

Over the past several years, The FLETC has been executing a rigorous construction program to increase facility capacity at both the Glynco, GA and the Artesia, NM Centers. This additional capacity will now be used to accommodate the additional training being requested. About two years ago, the FLETC successfully piloted an extended workday program that indicated training could be sustained over a lengthy period at levels beyond the normal 8-hour workday. The FLETC plans to implement an extended work-week effective January 2002 at the Glynco Training Center. As a result, the FLETC will be in a position to complete more training, without compressing the training program timelines. The additional training being requested by the Federal Aviation Administration (FAA) is currently underway

utilizing the Artesia, NM Center. In conjunction with the U.S. Border Patrol, the FLETC has rescheduled the basic training requirements of that agency from Glynco to the temporary training center in Charleston, SC. It is expected that this will maximize the capacity available at the Charleston site.

Also, based upon our best assessment of the training needs that are being communicated by our partner organizations, the FLETC has requested additional funding for the direct costs of basic training, and expanded authority to increase the number of approved Full-Time-Equivalent positions to accommodate the additional training. The FLETC anticipates that this increase for expanded levels of training will continue for the next several years.

President Bush has stated that this will be a protracted period of response to the war on terrorism and that law enforcement will play a vital role in domestic security. There is no doubt that training will be a key, if not an absolute necessity, for every Federal law enforcement agency.

Financial Management Service (FMS)

The Financial Management Service (FMS) is the financial manager for the Federal government. FMS provides a wide range of financial services as well as timely and accurate financial information to assist Federal officials when making financial decisions. Some examples of the financial services and information that FMS provides are captured below.

- FMS makes payments for all executive agencies except the Department of Defense, U.S. Postal Service, U. S. Marshals Service, and certain Government corporations. In FY 2001, over one billion payments totaling over \$1 trillion were made.
- FMS processes claims for all lost, stolen, and forged U. S. Government checks, including those not issued by FMS.
- FMS collects delinquent non-tax debt on behalf of the Federal government (almost \$3.2 billion in FY 2001).

- FMS manages the Federal government's daily cash flow (in excess of \$10 billion daily).
- FMS issues reports on a daily, monthly, and annual basis that provide information on the financial results and operations of the Federal government.

There are a variety of issues and impediments that will effect FMS' ability to improve the performance of these services in the future. Some of these issues and impediments are listed below.

FMS relies extensively on Federal program agencies, financial institutions, and Federal Reserve Banks to report to FMS the underlying transactions necessary to accomplish its responsibilities. FMS' reliance on these organizations makes cooperation between the organizations essential to implement any process or system changes.

Major challenges remain in increasing the use of electronic payments. These challenges include:

- getting Federal check recipients without bank accounts to open low-cost Electronic Transfer Accounts or other bank accounts;
- convincing new benefit recipients to enroll in Direct Deposit; and
- increasing the use of electronic means for tax refunds, vendor payments, and miscellaneous Federal payments.

A significant increase in the timely collection of Federal government receipts, at the lowest cost, through an all-electronic Treasury, requires moving major tax payment types to EFT, such as estimated taxes and other current paper-based tax collections. Coordination with IRS is a critical factor.

FMS relies extensively on program agency information for preparing and publishing the *Financial Report of the U.S. Government*. Treasury's success in addressing areas that FMS has taken the lead to resolve is dependent on program agency financial systems that produce timely, accurate, and reliable financial reports.

There are several factors affecting FMS' collection of delinquent debt. They include:

- states' interest in participating in administrative offset of Federal payments;
- the validity and enforceability of the Federal program agency debt referred to FMS for offset and cross-servicing;
- the accuracy and reliability of agency debt collection systems and records;
- systems incompatibilities between agencies and FMS; and
- age of the debt referred to FMS.

It is critical to balance the need to develop user-friendly Internet sites that are simple and easy to use with the need to ensure that Federal websites are secure and sensitive information is protected.

FMS works closely with Federal program agencies, the Federal Reserve Banks, and financial institutions to address these issues and overcome these impediments.

Bureau of the Public Debt

Because of the unpredictability of the Government's borrowing needs, Treasury's debt financing efforts must remain flexible and be able to adapt quickly to change. Public Debt issues more than \$2 trillion in Treasury securities each year. To minimize borrowing costs, it is imperative that the auctions used to sell these securities attract the widest array of bidders and thereby create the most competitive environment. As the securities industry consolidates, the number of direct competitive auction bidders has been reduced. To meet Treasury's borrowing needs at the lowest possible cost, the base of competitive auction participants needs to be broadened. To achieve this, Public Debt will educate potential submitters on the benefits and ease of buying Treasury securities directly at auction and aggressively promote direct bidding in Treasury auctions.

Public Debt must also continue its support of the \$2.5 trillion Federal Investment Program. The program offers investment services to Government funds, such as the Social Security trust funds, that are authorized to invest in

special non-marketable Treasury securities. Funds available for investment in Treasury securities by Federal agencies continue to grow at unprecedented rates. Public Debt's challenge is to continue to provide exemplary service while keeping pace with the increasing number of funds.

U.S. Secret Service

As a result of the September 11, 2001 attacks on America and the War on Terrorism, the Secret Service has experienced an increased demand for manpower to support its protective mission. In addition, Secret Service has begun the process of reestablishing its New York Field Office and replacing the assets that were pre-positioned to establish the United Nations General Assembly Coordinating Center.

During fiscal year 2001, the Secret Service purchased software and hardware to begin the modernization and consolidation of its financial systems. For fiscal year 2003, no specific source of funding has been identified to implement the system.

Treasury Inspector General For Tax Administration (TIGTA)

Public Law 106-422 amending the Inspector General Act of 1978. The law authorizes the establishment of an Inspectors General Criminal Investigator Academy and an Inspectors General Forensic Laboratory within the Department of the Treasury. The law also calls for the lab and the training academy to be under the control of a designated Inspector General. TIGTA is the current designee.

The Criminal Investigator Academy will perform investigator training services for the offices of Inspectors General. It will assure that the nearly 2,500 Special Agents community-wide will receive professional training of the same caliber as Special Agents in law enforcement bureaus within the Department of Justice and Treasury.

The Inspectors General Forensic Laboratory will provide forensic services for the offices of Inspectors General under the Inspector General

Act of 1978. The creation of a forensics laboratory for the entire IG community will assure that fraud investigations are effective in establishing the guilt or innocence of accused persons.

Part 2

INSPECTOR GENERAL REPORTS AND MANAGEMENT RESPONSE

**Audit of the Department of the Treasury's
Fiscal Years 2001 and 2000
Financial Statements**

OIG-02-054

FEBRUARY 27, 2002



Office of Inspector General

The Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON

Inspector General

February 27, 2002

MEMORANDUM FOR SECRETARY O'NEILL

FROM: Jeffrey Rush, Jr. 
Inspector General

SUBJECT: Report on the Department of the Treasury's Financial Statements
for Fiscal Years 2001 and 2000

SUMMARY

The attached report presents the results of our audits of the Department of the Treasury's (the Department) financial statements as of and for the fiscal years (FY) ended September 30, 2001 and 2000. These audits are required by the Chief Financial Officers Act of 1990 (CFO Act), as expanded by the Government Management Reform Act of 1994 (GMRA). The Department's FY 2001 and 2000 financial statements, and our audit report thereon, are incorporated in the accompanying *Department of the Treasury Accountability Report for Fiscal Year 2001*.

We have issued unqualified opinions on the Department's FY 2001 and 2000 financial statements.

Our report discusses two material weaknesses in internal control and two other reportable conditions identified during our audit. The material weaknesses relate to financial management and reporting at the IRS, and electronic data processing (EDP) controls at the IRS, Customs, the Financial Management Service and the United States Mint. The other reportable conditions address financial management improvements needed at Customs and certain other component entities.

We reported that the Department's financial management systems are not in substantial compliance with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). The Department also determined, through its self-assessment, that its financial management systems are not in substantial compliance with the requirements of FFMIA.

In accordance with generally accepted government auditing standards, the Report of the Office of Inspector General is dated February 15, 2002, the last date of audit field work.

DISCUSSION

An unqualified opinion, by itself, is not a good indicator of financial management success. The unqualified opinions on the Department's statements were achieved only through labor intensive efforts extending well after the end of the fiscal years to overcome major financial management deficiencies at key bureaus, most notably the Internal Revenue Service (IRS) and the United States Customs Service (Customs). These deficiencies have been reported at the IRS and Customs since financial statement audits were initiated in the early 1990s. Various compensating procedures have been developed to produce materially accurate annual financial statements, however, limited progress has been made in addressing the core underlying systemic issues.

A key measure of financial management success should be the capability to produce timely, reliable and accurate information throughout the year to enable managers to make daily operating decisions. Initial efforts are under way to further this goal through the monthly "3-day close" effort you have initiated at the Department. Although the bureaus have been gradually reducing the number of days for their monthly closings, the data is generally incomplete and unreliable. Estimation processes need to be developed, as well as a framework to review the data, identify discrepancies, and analyze variances.

Another measure of financial management success should be the capability to issue audited annual financial statements on a timely basis. This is largely dependant on the Department's ability to produce reliable, auditable information during the year, rather than relying on major post-closing adjustments to the annual statements.

The Office of Management and Budget (OMB) plans to accelerate the submission date for audited financial statements and accountability reports to November 15 for FY 2004. We support your goal for the Department to meet this requirement two years earlier, or November 15, 2002 for the FY 2002 accountability report and audited statements. However, achieving this goal and maintaining unqualified audit opinions will be highly problematic without major systemic changes in how the Department and its bureaus process transactions, maintain records, and report financial results.

Resolving the financial management challenges facing the Department is a formidable task that will require strong corporate leadership by the Department, active engagement by the bureau heads, and highly focused efforts by financial managers and staff. Your personal support is essential for the Department to meet these

challenges and achieve true financial management excellence. We are strongly committed to working with you to achieve this goal.

In accordance with the Department of the Treasury Directive No. 40-01, we request a corrective action plan be provided to us within 30 days of the date of this memorandum. We recognize that certain corrective actions have already been undertaken. We encourage these efforts and will continue to provide advice and assistance to the Department in this regard.

As required by the Reports Consolidation Act of 2000, also attached are reports summarizing what the Inspector General and the Inspector General for Tax Administration consider to be the most serious management and performance challenges facing the Department and the IRS.

Should you or your staff have questions, you may contact me at (202) 622-1090 or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit, at (202) 927-5430.

Attachments

cc: Edward R. Kingman, Jr.

Assistant Secretary for Management and Chief Financial Officer

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SECTION I –
REPORT OF THE OFFICE OF
INSPECTOR GENERAL

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Report of the Office of Inspector General

*The Department of the Treasury
Office of Inspector General*

To the Secretary of the Treasury:

We audited the Department of the Treasury's (the Department) Consolidated Balance Sheets as of September 30, 2001 and 2000, the related Consolidated Statements of Net Cost and Custodial Activity for the years then ended, and the related Consolidated Statement of Changes in Net Position and Combined Statements of Budgetary Resources and Financing for the year ended September 30, 2001. These financial statements are incorporated in the accompanying *Department of the Treasury Accountability Report for Fiscal Year 2001 (FY 2001 Accountability Report)*.

Results in Brief

This report presents our unqualified opinion on these financial statements. Our audit disclosed the following material weaknesses in internal control:

- Financial Management and Reporting at the Internal Revenue Service (IRS) Needs Improvement (Repeat Condition).
- Electronic Data Processing (EDP) Controls Over Financial Systems Should be Strengthened (Repeat Condition).

We also identified two other reportable conditions in internal control related to management of trade activities and related systems at the U.S. Customs Service (Customs), and financial management improvements needed at certain other component entities.

Our audit disclosed the following reportable instances of noncompliance with laws and regulations, exclusive of the Federal Financial Management Improvement Act of 1996 (FFMIA):

- IRS did not release Federal tax liens in accordance with Section 6325 of the Internal Revenue Code (IRC) (Repeat Condition).
- Customs did not make recommendations on revising the fees and charges for its reimbursable projects as required by the Chief Financial Officers Act of 1990 (CFO Act) (Repeat Condition).
- Customs did not report to Congress recommendations for fee adjustments as required by Title 19 of the U.S. Code, Section 58c(f)(4) (Repeat Condition).

In addition, the Department's financial management systems did not substantially comply with Federal Financial Management Systems Requirements (FFMSR), Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level as required under FFMIA (Repeat Condition).

Management's Responsibilities

Management is responsible for:

- Preparing the financial statements in conformity with accounting principles generally accepted in the United States of America.
- Preparing the Management Discussion and Analysis (MD&A) of the Department, Supplemental Information, and Other Accompanying Information.
- Establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and

related costs of internal accounting policies and procedures.

- Complying with laws and regulations applicable to the Department.

Scope of Audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, *Audit Requirements for Federal Financial Statements* (OMB Bulletin No. 01-02). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Our responsibility is to express an opinion on the financial statements based on our audit. We did not audit the financial statements of the IRS or the Bureau of the Public Debt's (BPD) Schedule of Federal Debt for the years ended September 30, 2001 and 2000, the accounts for which are included in the Department's financial statements. The IRS' financial statements for the years ended September 30, 2001 and 2000, included custodial revenues of \$2.12 trillion and \$2.10 trillion, total assets of \$25.2 billion and \$26.6 billion, and net costs of operations of \$9.3 billion and \$8.7 billion, respectively. BPD's Schedules of Federal Debt for the years ended September 30, 2001 and 2000, included Federal debt and interest payable of \$5.8 trillion and \$5.7 trillion, and interest expense of \$363 billion and \$366 billion, respectively. These accounts were audited by another auditor whose reports were furnished to us, and our opinion, in so far as it relates to the amounts included in IRS' financial statements and BPD's Schedules of Federal

Debt for the years ended September 30, 2001 and 2000 is based solely on the reports of the other auditor. We believe that our audits and the reports of the other auditor provide a reasonable basis for our opinion and our conclusions on internal control and compliance with laws and regulations.

In planning and conducting our audit of the Department's financial statements, we considered its internal control over financial reporting by obtaining an understanding of the design of the Department's internal control, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal control.

In addition, with respect to internal controls related to performance measures reported in the MD&A, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures, and, accordingly, we do not provide an opinion on such controls.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Department's compliance with: (1) certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts; and (2) certain other laws and regulations, specified in OMB Bulletin No. 01-02, including the requirements referred to in FFMIA. We limited our tests of compliance to these provisions and we did not test

compliance with all laws and regulations applicable to the Department. Providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with the following three general requirements: FFMSR, applicable Federal accounting standards, and the SGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a).

Results of Audit

Opinion on the Financial Statements

In our opinion, based on our audit and the reports of the other auditor, the Department's financial statements present fairly, in all material respects, its assets, liabilities, and net position as of September 30, 2001 and 2000, its net costs and custodial activities for the years then ended, and the changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

The MD&A and Supplemental Information are not required parts of the financial statements but are required by the Federal Accounting Standards Advisory Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and Supplemental Information. However, we did not audit the MD&A and Supplemental Information and express no opinion on them.

Our audit was conducted for the purpose of expressing an opinion on the Department's financial statements referred to above. The Other Accompanying Information is not a required part of the financial statements but is required by OMB Bulletin No. 01-09, *Form and Content of Agency Financial Statements*. Such information has not been subjected to the auditing

procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Internal Control

Internal control is a process, effected by the Department's management and other personnel, designed to provide reasonable assurance that the following objectives are met:

- Reliability of financial reporting - transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and the safeguarding of assets against loss from unauthorized acquisition, use, or disposition;
- Compliance with applicable laws and regulations - transactions are executed in accordance with: (1) laws governing the use of budget authority and other laws and regulations that could have a direct and material effect on the financial statements, and (2) any other laws and regulations, identified in OMB Bulletin No. 01-02; and
- Reliability of performance reporting - transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Because of limitations inherent in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that internal control may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

As defined in OMB Bulletin No. 01-02, reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of the internal control,

that could adversely affect the Department's ability to meet the internal control objectives as defined above. Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the financial statements being audited or material to a performance measure or aggregation of related performance measures may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We identified the following matters involving the internal control and its operation that we consider to be material weaknesses and other reportable conditions as defined above. Material weaknesses and other reportable conditions that we identified in our report, *Audit of the Department of the Treasury's Fiscal Year 2000 Financial Statements* (OIG-01-050, issued February 28, 2001) that continued to exist during FY 2001, are identified as "Repeat Condition."

Material Weaknesses

Financial Management and Reporting at the IRS Needs Improvement (Repeat Condition)

IRS continues to face many of the pervasive internal control weaknesses that have been reported each year since its financial statements were first audited for fiscal year 1992. Despite these weaknesses, for the second consecutive year, IRS was able to produce financial statements covering its tax custodial and administrative activities that are fairly stated in all material respects. However, because of serious systems and control weaknesses, IRS had to rely on costly, time-consuming processes; statistical projections; external contractors; substantial adjustments; and labor intensive efforts that extended nearly five months after the fiscal year-end to derive reliable year-end balances and submit audited financial statements. These costly efforts would not have been necessary if IRS' systems and controls operated effectively. This approach cannot produce the reliable, useful, and timely financial and performance information IRS needs for decision-

making on an ongoing basis, which is a goal of the CFO Act, nor can it fully address the underlying financial management and operational issues that adversely affect IRS' ability to effectively fulfill its responsibilities as the nation's tax collector.

Strong commitment and hard work by both IRS senior leadership and staff is the key to IRS' ability to overcome its fundamental systems and internal control deficiencies. The challenge for IRS will be to accelerate the improvements made in recent years. This not only means continuing to improve its compensating processes but to develop and implement fundamental long-term solutions to address its internal control weaknesses. Some of these solutions can be addressed in the near term through the continued efforts and commitment of IRS senior management and staff. Others, which involve modernizing IRS' financial and operational systems, will take years to fully achieve.

The material weaknesses in internal control identified during the FY 2001 IRS audit, all of which are repeat conditions, are summarized as follows:

- An inadequate financial reporting process, resulting in IRS not (1) being able to prepare reliable financial statements without extensive compensating procedures, or (2) having current and reliable ongoing information to support management decision-making and to prepare cost based performance measures;
- Weaknesses in controls over unpaid tax assessments, resulting in IRS' inability to properly manage unpaid assessments and leading to increased taxpayer burden;
- Weaknesses in controls over the identification and collection of tax revenues due the Federal government and the issuance of tax refunds, resulting in potentially billions of dollars in improper payments and lost revenue to the Federal government;
- Inadequate controls over property and equipment, resulting in IRS' inability to reliably and timely report its

property and equipment balances and reasonably ensure that its property and equipment is safeguarded and used only in accordance with management policy;

- Weaknesses in controls over budgetary activity, resulting in IRS' inability to routinely ensure that its budgetary resources are being properly accounted for, reported, and controlled; and
- Weaknesses in computer security controls, potentially resulting in unauthorized individuals being allowed to access, alter, or abuse proprietary IRS programs and electronic data and taxpayer information.

The material weaknesses in internal control noted above may adversely affect any decision by IRS' management that is based, in whole or in part, on information that is inaccurate because of these weaknesses. Also, unaudited financial information reported by IRS, including budget and performance information, may also contain misstatements resulting from these weaknesses.

In addition, a reportable condition was identified related to deficiencies in controls over hardcopy tax receipts and taxpayer data. In previous audits, a reportable condition was identified related to deficiencies and limitations in revenue reporting and excise tax distributions. In fiscal year 2001, this condition continued to exist but has been included as part of the material weakness in financial reporting.

Recommendations:

Recommendations to address the weaknesses discussed above have been provided to the IRS. We reaffirm our prior year recommendation that the Assistant Secretary for Management and Chief Financial Officer ensures that IRS develops and implements an appropriate corrective action plan that will fully address the material weaknesses and reportable condition identified in the audit of its financial statements.

**EDP Controls Over Financial Systems Should be Strengthened
(Repeat Condition)****General Controls**

EDP general controls, which provide the structure, policies and procedures that apply to every computer operation within the Department, need to be strengthened at certain component entities, most notably IRS, Customs, Financial Management Service (FMS), and the U.S. Mint (Mint). The absence of effective general controls over computer based financial systems makes the Department vulnerable to losses, fraud, delays, or interruptions in service, and compromises the integrity and reliability of the information systems and data.

The details of the general control weaknesses and audit recommendations were, or will be, provided to respective bureau management separately, and in some instances, due to the sensitive nature of the weaknesses, in separate reports with limited official distribution. Significant EDP general control weaknesses by major category are summarized below.

Entity-wide security program planning and management

Specific control weaknesses included (1) inadequate security planning and implementation, (2) insufficient technical security-related training for key personnel, and (3) inadequate follow-up monitoring to ensure that internal control deficiencies are considered and addressed entity-wide. The entity-wide security program planning and management process provides for identifying and assessing risks, deciding what policies and controls are needed, periodically evaluating the effectiveness of these policies and controls, and acting to address any identified weaknesses.

Access control

Deficiencies existed in physical and logical access controls over computer resources (data files, application programs, and computer-related facilities and equipment) that protect against unauthorized modification, disclosure, loss, or impairment. Access control weaknesses make systems vulnerable to damage and misuse by allowing individuals and groups to inappropriately

modify, destroy, or disclose sensitive data or computer programs for purposes such as personal gain or sabotage.

Application software development and change control

Policies and procedures to identify, select, install, and modify software have not been documented, and software changes were not adequately controlled. Application software development and change controls prevent unauthorized software programs or modifications to programs from being implemented.

System software

System software control weaknesses included (1) review of system utility logs were not always performed, (2) key networks and systems were not routinely monitored to identify inappropriate system software configurations, and (3) system software was not optimally configured to ensure the integrity of system programs, files and data. System software controls limit and monitor access to the powerful programs and sensitive files associated with the computer systems operation.

Segregation of duties

Segregation of duties weaknesses noted related to system and security administration. Segregation of duties refers to the policies, procedures, and organizational structure that help ensure that one individual cannot independently control key aspects of a processor computer-related operation, and thereby conduct unauthorized actions or gain unauthorized access to assets or records without detection.

Service continuity

Several significant deficiencies, including insufficient planning and testing, could impair timely restoration of mission-critical systems. Service continuity controls ensure that when unexpected events occur, critical operations continue without undue interruption and critical and sensitive data are protected. In addition, these weaknesses could result in inappropriate disclosure of sensitive taxpayer information.

Application Controls

Application controls provide assurance that transactions are valid, properly authorized, and completely and accurately processed and reported, and include (1) programmed control techniques, such as automated edits, and (2) manual follow-up of computer-generated reports, such as reviews of reports identifying rejected or unusual items.

Application controls were generally not tested at the component entities referred to above because the weaknesses identified in the general controls limited the effectiveness and reliance that could be placed on application controls.

Based on limited testing of application controls at certain component entities, additional weaknesses were identified. At the Mint, for example, certain application controls were tested which identified weaknesses related to (1) the completeness, integrity, and availability of internal financial reports, (2) logical user access rights and privileges for business applications that were not sufficiently defined based on appropriate job duties or responsibilities, (3) ascertaining the validity and authority of changes to inventory valuation, and (4) retrieval and review of automated reports from systems that are used for financial reporting to the general ledger system.

Recommendations:

Recommendations were, or will be, provided to bureau management to address these conditions. We reaffirm our prior year audit recommendation that the Department's Chief Information Officer provide effective oversight to ensure that the specific recommendations detailed in the above referenced reports, and the related plans for corrective actions, are implemented completely and timely by the various bureaus.

Reportable Conditions

Management of Trade Activities and Related Systems at Customs Needs Improvement (Repeat Condition)

Ongoing weaknesses in the design and operation of Customs' controls over trade activities and financial management and information systems continue to inhibit the effective management of these activities and protection of trade revenue. Many of these weaknesses have been reported since Customs' financial statements were first audited in the early 1990's. Customs' information systems weaknesses were discussed in the material weakness *EDP Controls Over Financial Systems Should be Strengthened (Repeat Condition)* above. The weaknesses related to its trade and financial management activities are discussed in more detail below:

- Customs' core financial systems did not provide certain critical financial information necessary for managing operations, such as a "customer-based" subsidiary ledger for non-entity accounts receivable. The financial systems also did not capture all transactions as they occurred, such as financing sources for reimbursable transactions and the recognition of liabilities upon receipt of goods and services. Additionally, financial systems were not fully integrated. Furthermore, overrides of system controls, designed to detect possible overpayment of refunds, are not always subject to supervisory approval.

While Customs made progress in improving its core financial systems, the majority of these weaknesses will not be fully addressed until successful implementation of the Automated Commercial Environment (ACE) and the SAP R/3 financial system.

- Customs needs to refine the source data input into its Cost Management Information System (CMIS) to enable it to evaluate the accuracy of budget estimates used as a basis for reimbursable charges for certain inspection positions and other reimbursable services.

Customs made progress in this area during FY 2001 by reprogramming new codes in the Customs Officers Scheduling Systems (COSS). With the implementation of the new codes, the labor data downloaded from the COSS to CMIS should be more reliable. Customs took steps to verify the CMIS survey data submitted by each location. The reliability of the labor and CMIS survey data is pending verification through future audits.

- Customs' controls over its drawback program need improvement. Customs has not implemented sufficient processing controls over drawback to prevent duplicate or over/under-payments of drawback. In recent years, Customs developed a compensating control procedure, whereby its financial advisors performed statistical tests of drawback payments and liquidations to evaluate the validity of claims and the estimated drawback liability reported in its annual financial statements. This compensating control has had limited effectiveness because of numerous instances where Customs' testing sheets contained erroneous or incomplete information.

Customs also incorporated the compensating control procedure used for the annual financial statements into the Self Inspection Programs (SIP). However, this section of SIP was not implemented during FY 2001.

Additionally, Customs has made progress in the drawback area by implementing a Drawback Work Station (DWs), a Microsoft Access program developed by the National Scripting Team. The program provides a linkage between entry summary information and related drawback claims. Customs has installed the DWs in 7 of its 8 drawback offices. Additionally, a handbook for use with the system has been distributed to the offices that use DWs. The effectiveness of DWs in preventing duplicate or over/under-payments of drawback is pending verification through future audits.

- Customs continued to experience weaknesses in its statistically based examination programs known as compliance measurement programs, or CMPs. CMPs are designed to quantify the revenue gap and assess trade law compliance. These CMPs are essential to ensure accountability over imported goods processed within or entered into the United States commerce, or held by, and withdrawn from bonded warehouses and foreign trade zones. We determined that in some areas, the CMPs need to be strengthened, and in other areas, CMPs need to be developed and implemented.

Until Customs fully implements a comprehensive set of CMPs, it does not have reasonable assurance that the revenue gap and trade compliance are accurately measured. In addition, it lacks the information needed to adequately focus its trade compliance efforts.

Customs made progress in certain areas related to CMP weaknesses. Although no progress has been made in the air carrier manifest CMP due to lack of funding, Customs made some progress in the foreign trade zones and bonded warehouses CMPs. The effectiveness of these programs is pending verification through future audits.

Recommendations

We have provided specific recommendations to Customs' management for correcting these conditions in our prior year audit reports.

Financial Management at Certain Other Component Entities and Activities Needs Improvement (Repeat Condition)

The FY 2001 financial statement audits of certain other Treasury component entities identified weaknesses in various financial management areas. Although these weaknesses individually may not be significant to the Department, in the aggregate, they impact the Department's ability to produce accurate, reliable, and timely financial information. The majority of these weaknesses are repeat conditions, thus, reinforcing the need for the Department to make

concerted efforts to ensure that they are addressed. These weaknesses are as follows:

- The Exchange Stabilization Fund (ESF) needs detailed written procedures documenting accounting operations and the financial statements preparation process. (Repeat Condition)
- Supervisory review of ESF's transactions recorded in the general ledger needs to be performed on a consistent basis. (Repeat Condition)
- Improvements are needed in the Mint's review and approval of vendor invoices to ensure that payments are for goods and services actually received.
- The Executive Office of Asset Forfeiture's (EOAF) balances and transactions reflected in its financial statements need to be recorded in the general ledger. (Repeat Condition)
- EOAF's asset specific expenses resulting from asset disposition activities need to be recorded and accounted for in the various seized property and forfeited assets tracking systems. (Repeat Condition)
- The Office of the Comptroller of the Currency's (OCC) disbursements related to Time and Travel Reports need to be adequately approved and documented. (Repeat Condition)
- OCC needs to consistently follow their timekeeping procedures relating to certifying rosters and application for leave. (Repeat Condition)
- The Departmental Offices need to consistently follow their capitalization policy and improve property record keeping. (Repeat Condition)

Recommendations:

These entities' FY 2001 financial statement audit reports include specific recommendations for correcting the conditions noted above. In addition, we recommend that the Assistant Secretary for

Management and Chief Financial Officer oversee the efforts of these entities to implement those recommendations.

* * * * *

Our consideration of internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses.

We also noted certain other matters involving internal control and its operation that we will report to the Department in a separate management letter.

Compliance with Laws and Regulations

The results of our tests of compliance with laws and regulations, exclusive of FFMIA, disclosed the following instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02:

- The IRC grants IRS the power to file a lien against the property of any taxpayer who neglects or refuses to pay all assessed Federal taxes. Under Section 6325 of the IRC, IRS is required to release a Federal tax lien within 30 days after the date the tax liability is satisfied, has become legally unenforceable, or the Secretary of the Treasury has accepted a bond for the assessed tax. The FY 2001 audit identified instances in which taxpayers' total outstanding tax liabilities were either paid off or abated and IRS did not release the applicable Federal tax lien within the 30 day requirement stipulated by the IRC. (Repeat Condition)
- The CFO Act requires that a biennial review be performed of fees and other charges imposed for services and things of value, and that recommendations be made to the head of the agency on revising those charges to reflect costs incurred in providing those services and things of value. During FY

2001, Customs conducted a review and analysis of these fees, but did not make recommendations on revising the fees as required. Since Customs' review and analysis did not provide recommendations on revising the fees and charges in question, we believe that Customs is not in full compliance with the CFO Act. (Repeat Condition)

- Title 19 of the U.S. Code, Section 58c(f)(4), requires a biennial review, for each even-numbered fiscal year, of the adequacy of the fees charged for the provision of certain Customs services, as well as the fees charged for the processing of merchandise. The statute requires that Customs prepare a report for Congress, based on its review, that makes recommendations on how the fees should be adjusted. In FY 2001, Customs conducted a review and analysis of the fees collected in FY 2000. However, it did not report to Congress recommendations on adjustments to the fees. Customs believes that it is not required to make the reporting to Congress. In our view, the law clearly states that Customs is required to submit a report on its review to Congress each even-numbered fiscal year, as stated above. (Repeat Condition)

We believe that these two instances of non-compliance result from weaknesses in Customs cost accounting systems, policies and procedures that inhibit the ability to identify and accumulate costs of services provided.

Except for the instances described above, the results of our tests of compliance disclosed no other instances of noncompliance with other laws and regulations, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards*, and OMB Bulletin No. 01-02.

The results of our tests disclosed instances where the Department's financial management systems did not substantially comply with FFMIA section 803(a) requirements related to compliance with FFMSR, applicable Federal accounting standards and the SGL at the transaction level. (Repeat Condition)

Instances of noncompliance with FFMSR are summarized below:

-
- IRS' financial systems do not provide timely and reliable information for financial reporting and preparation of financial statements. IRS was able to ultimately generate reliable financial statements, but only after months of costly, time consuming, and labor intensive efforts, including the need for statistical projections, external contractor support, and substantial adjustments. In addition, IRS lacks a subsidiary ledger for its unpaid assessments; lacks a reliable subsidiary ledger for its property and equipment; and lacks an effective audit trail from its general ledger back to subsidiary detailed records and transaction source documents for material balances.
 - Customs' core financial systems do not provide complete and accurate information for financial reporting and preparation of financial statements. The source data input into Customs' CMIS needs further refinement to enable Customs to generate estimated charges for certain inspection positions and other reimbursable services that approximate actual costs. Furthermore, certain feeder systems are not fully integrated or electronically interfaced with Customs' general ledger system.
 - OCC's core financial system does not integrate the budget execution function in the core financial system with the general ledger or provide users with on-line access or daily reports on the status of funds to support management of OCC programs and decision making. In addition, OCC's financial management system does not provide security over financial information in accordance with OMB Circular A-130, Appendix 3. OCC implemented a new financial management system, effective October 1, 2001, which it believes will remedy its financial management systems noncompliance with FFMIA
 - The material weakness *EDP Controls Over Financial Systems Should be Strengthened (Repeat Condition)* related to EDP controls at IRS, Customs, FMS and Mint, discussed above.

The instance of noncompliance with Federal accounting standards is summarized below:

- Material weaknesses at IRS related to controls over the financial reporting process, unpaid tax assessments, tax revenue and refunds, property and equipment, and budgetary activity.

Instances of noncompliance with the SGL at the transaction level requirements are described below:

- IRS' general ledger system comprises two independent general ledgers that are not integrated with each other nor with their supporting records for material balances, and does not use the standard Federal accounting classification structure for custodial activities.
- Customs' reimbursable transactions were initially recorded in the general ledger as though they were appropriated transactions. Also, the Automated Commercial System did not interface with Customs' general ledger system to record all receivables throughout the year.

The Secretary of the Treasury also has determined in the Secretary's Letter of Assurance, in Part 4 of the accompanying *FY 2001 Accountability Report*, that the Department cannot provide assurance that its financial management systems are in substantial compliance with FFMIA. The Department's remedial actions and related timeframes are also presented in Part 4.

FFMIA requires that if the head of an agency determines that its financial management systems do not substantially comply with FFMIA, a remediation plan must be developed, in consultation with OMB, that describes the resources, remedies, and intermediate target dates for achieving substantial compliance. FFMIA also requires OMB concurrence with any plan not expected to bring the agency's system into substantial compliance with the FFMIA no later than three years after a determination of noncompliance is made.

Customs' FFMIA remediation plan includes planned remedial actions and associated target dates. The plan also identifies the resources required for all of the planned remedial actions, however, funding for two of the key remedial actions is dependent on the enactment of future appropriations. We believe that Customs should develop alternative actions and plans wherever possible to address the funding uncertainties and extended timeframes related to these remedial actions. Several of Customs' critical remedial actions extend well beyond the three-year statutory timeframe.

IRS has established a remediation plan to address the conditions affecting its systems' ability to comply with the requirements of FFMIA. This plan outlines the actions to be taken to resolve these issues, designates resources to be devoted to implementing those actions, and specifies timeframes for their completion. Due to the long term nature of IRS' systems modernizations efforts, which IRS expects will resolve many of the most serious issues, many of the planned timeframes exceed the three-year resolution period specified in FFMIA.

The Department received a waiver from OMB for Customs and IRS for the requirement to bring financial management systems into substantial compliance within the three year timeframe.

Recommendations:

We reaffirm our prior year recommendations that the Assistant Secretary for Management and Chief Financial Officer: (1) ensure that IRS implements appropriate controls so that Federal tax liens are released in accordance with Section 6325 of the IRC; (2) ensure that Customs is in full compliance with the requirements of the CFO Act and Title 19 of the U.S. Code, Section 58c(f)(4); and (3) continue to monitor and assess progress of the bureaus in developing and implementing their remediation plans to address the identified instances of financial management systems noncompliance with the requirements of FFMIA, and in taking appropriate actions when key target dates are not met.

* * * * *

We have reviewed our findings and recommendations with the Department's financial management and have incorporated their comments as appropriate. The response to our audit report from the Assistant Secretary for Management and Chief Financial Officer is included in Appendix 1 of this report.

This report is intended solely for the information and use of the management of the Department, OMB, the U.S. General Accounting Office, and the Congress, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is available to the public as a matter of public record.



William H. Pugh
Deputy Assistant Inspector General for Financial Management
and Information Technology Audits
February 15, 2002


Appendix 2
Report Distribution

Assistant Secretary

Department of the Treasury
Washington, D.C.

February 22, 2002

MEMORANDUM FOR: JEFFREY RUSH, JR.
INSPECTOR GENERAL

FROM: Edward R. Kingman, Jr. 
Assistant Secretary for Management and
Chief Financial Officer

SUBJECT: Management Response – Report of the Office of Inspector General on
the Department of the Treasury's Fiscal Year 2001 Financial
Statements

On behalf of Secretary O'Neill, I am responding to your audit report on the Department's financial statements included in Treasury's fiscal year 2001 Accountability Report.

We appreciate your efforts to audit the Department's fiscal year 2001 financial statements and providing advice on how to improve our financial reporting processes. Over the past several years, our offices have worked diligently together to achieve significant results – the initial unqualified opinion the Department received on its financial statements for fiscal year 2000, followed by another unqualified opinion for fiscal year 2001.

However, we recognize that while the audit opinion is a good indicator of success in preparing our financial statements, we still have much work to do to improve our financial reporting and financial management. As you note in your report, many of our financial systems need to be upgraded or replaced in order to allow for the production of timely, reliable financial data throughout the year, as well as for the acceleration of annual financial statement preparation. To this end, we are developing a management plan for placing an even higher level of senior management attention on the correction of material weaknesses and audit follow-up activities. I am confident that implementation of this plan will produce positive results in the near future.

You identified two Departmental level material weaknesses in your report: *Financial Management and Reporting at IRS Needs Improvement*; and, *EDP Controls Over Financial Systems Should be Strengthened*. We have already taken many steps towards addressing these weaknesses. For example, on the IRS situation, we actively participate on several IRS executive steering committees that are addressing IRS' financial management weaknesses, and have worked closely with the IRS on the development of IRS' Federal Financial Management Improvement Act systems remediation plan. We also obtain quarterly plan updates, which we share with the Office of Management and Budget, to ensure that the plans are being carried out. We will work with your staff to explore other actions we can take to address this weakness. My office will ensure that corrective action plans continue to be implemented to address both of these weaknesses.

I am confident that working together, along with senior management at the Treasury reporting entities, the Treasury Inspector General for Tax Administration, and the General Accounting Office, we can continue to improve financial management and reporting within Treasury. I am especially looking forward to our continued joint efforts to make the "3-day close" initiative a complete success that will translate into a greatly accelerated completion of our fiscal year 2002 audited financial statements.

Appendix 2
Report Distribution

Office of Management and Budget

Director of the Office of Management and Budget

United States Senate

Chairman, Subcommittee on Treasury, Postal Service and
General Government, Committee on Appropriations
Ranking Member, Subcommittee on Treasury, Postal Service
and General Government, Committee on Appropriations
Chairman, Committee on Governmental Affairs
Ranking Member, Committee on Governmental Affairs

United States House of Representatives

Chairman, Subcommittee on Treasury, Postal Service and
General Government, Committee on Appropriations
Ranking Minority Member, Subcommittee on Treasury, Postal
Service and General Government, Committee on
Appropriations
Chairman, Committee on Government Reform
Ranking Minority Member, Committee on Government Reform

United States General Accounting Office

Comptroller General of the United States

SECTION II –
MANAGEMENT AND PERFORMANCE
CHALLENGES FACING THE
DEPARTMENT OF THE TREASURY

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Summary Report of the Treasury Inspector General



Inspector General

DEPARTMENT OF THE TREASURY
WASHINGTON

January 30, 2002

MEMORANDUM FOR SECRETARY O'NEILL

FROM: Jeffrey Rush, Jr. *JR*
Inspector GeneralSUBJECT: Management and Performance Challenges Facing the
Department of the Treasury

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges currently facing the Department of the Treasury for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2001*. Last year, we identified nine challenges that were either management and performance related or mission specific. A copy of last year's report is attached. Some progress was made, but more remains to be done.

This year, in light of the President's Management Agenda, we have shifted our assessment away from mission specific areas. We have identified the serious challenges that are currently impeding the Department's ability to carryout its program responsibilities and ensure the integrity of its operations. We also considered the terrorist attacks of September 11, which have served to underscore the need to improve the management and security of Treasury assets that contribute to homeland security. In this regard, we believe there are five overarching challenges requiring management's increased attention:

Challenge 1 - Prompt Corrective Action

Treasury management has not been willing to promptly correct material weaknesses and other serious deficiencies in programs and operations. Although the number of material weaknesses has been reduced in the past few years, one material weakness was first reported in 1991 and remains uncorrected. Thirteen other material weaknesses reported in the 1990's remain uncorrected. Audit resolution must become a priority for Department managers.

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Challenge 2 - Linking Resources to Results

Treasury management has not integrated managerial cost accounting into its business activities. Thus, Treasury managers are unable to link resources to results. Treasury managers often report their accomplishments relying on antidotal performance evidence and out-of-date financial information.

Challenge 3 - Financial Management Systems

Treasury management continues to operate financial management systems that are not capable of producing timely, accurate, and reliable information. Treasury has been working to produce more timely reports with its "3-day close" initiative. Most bureaus have reduced the number of days to report their monthly result; however, the data is generally inaccurate and unreliable because management has not developed appropriate estimation processes and has not developed a framework to review the data and analyze variances.

Challenge 4 - Information Security

Treasury management has not corrected long-standing information security problems and vulnerabilities. Although the Computer Security Act of 1987 required agencies to protect information technology assets, several bureaus are still in the process of developing information system security plans. Our recent review disclosed that 82 percent of the Department's information systems are not accredited, and have been allowed to operate without a reasonable assurance of secure operations or adequate safeguards.

Challenge 5 - Duplicated, Wasteful Practices

Treasury management has not adapted enterprise solutions to its core business activities. Thus, rather than realize the economy, efficiency, and effectiveness of consolidation and sharing, Treasury bureaus and offices operate as autonomous agencies. Treasury management should consider the cost of bureau-wide personnel, payroll, travel, and procurement activities and look for opportunities to eliminate duplicative systems and business processes.

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We would be pleased to discuss our views on these management and performance challenges in more detail.

Attachment

cc: Ed Kingman, Consultant



INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON

February 28, 2001

MEMORANDUM FOR SECRETARY O'NEILL

FROM: Jeffrey Rush, Jr.
Inspector GeneralSUBJECT: Management and Performance Challenges Facing the
Department of the TreasurySUMMARY

The Reports Consolidation Act of 2000 requires that we provide you with our perspective on the most serious management and performance challenges currently facing the Department of the Treasury for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2000*. This new legislation codified into law what had become, since 1997, an annual request of my office from the Senate and House leadership for similar information.

In our December 2000 response to the Congress, we identified nine serious challenges. The following eight challenges were identified in our prior year response: (1) Information Security, (2) Treasury's Information Technology Investment Management, (3) Money Laundering/Bank Secrecy, (4) Narcotics Interdiction and Trade Enforcement, (5) Revenue Protection, (6) Violent Crime, (7) Implementation of the Government Performance and Results Act, and (8) Financial Management at Treasury/Compliance with the Federal Financial Management Improvement Act. While Treasury has made substantial progress to address these challenges, we were not able to remove any from our December 2000 list because each continues to present a serious risk. In addition, we identified the following new challenge for 2000: Safety and Soundness of the Banking Industry.

It should be noted that Treasury made sufficient progress in addressing certain other previously reported serious challenges to warrant their removal from our list. These challenges include (1) Year 2000 compliance, (2) Treasury's debt collection initiatives, and (3) Electronic Funds Transfer/ Electronic Benefits Transfer.

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The Treasury Inspector General for Tax Administration will separately address challenges related to the Internal Revenue Service (IRS).

DISCUSSION

Our reasons for identifying these nine challenges as the most serious facing Treasury are as follows:

1. Information Security

Protecting information and data from unauthorized access is critical to ensure, among other things, the integrity of Treasury's law enforcement and financial operations. Information technology (IT) enables Treasury to achieve its business goals but creates a number of internal control challenges. As information becomes more accessible through electronic means, threats to security increase. This has given rise to various initiatives to improve the Government's infrastructure.

Treasury has achieved some of its security goals such as establishing an Information System Architecture Framework and Public Key Infrastructure draft standards. However, more needs to be done.

Our audits have found significant, long-standing weaknesses in the U.S. Customs Service's (Customs) ability to maintain continuity of operations as well as overall security and access control. As a result, we issued a "7-Day" letter to the Secretary of the Treasury on May 26, 2000, who in turn notified Congress as required by the Inspector General Act. In that letter, we recommended that Customs take immediate steps to develop an alternative site for continuity of operations and install firewall and detection software to reduce the risk of unauthorized Internet access. Our audits have also identified Electronic Data Processing general control weaknesses at other Treasury bureaus, most notably the Financial Management Service (FMS). We also found that Treasury needed to devote additional resources to its implementation of Presidential Decision Directive (PDD) 63 which requires the development of a reliable, interconnected, and secure information system infrastructure. Treasury's efforts to implement PDD 63 have revealed the lack of

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resources being devoted to the effort. Furthermore, we noted the need for Treasury to identify and prioritize its critical assets.

2. Treasury's Information Technology Investment Management

The Clinger Cohen Act of 1996 (CCA) sets the groundwork for effective management of IT investments. With nearly \$2 billion annually invested in IT by Treasury, CCA requires improved capital planning, investment controls, project management, systems development, and performance measurement. Treasury's weaknesses in effectively managing major IT investments have been well documented over the past several years for such systems as the IRS Tax System Modernization and the Customs Automated Commercial Environment (ACE) initiative. We recently issued a report detailing Treasury's implementation of CCA. In that report, we noted that the Treasury Investment Review Board (IRB) and Departmental practices needed improvement if they were to be able to provide executive direction and effective management over IT investments. Treasury implemented some CCA requirements and a number of our recommendations. Two examples of this are the restructuring of the IRB and expanded IRB oversight of 14 capital investment projects.

3. Money Laundering/Bank Secrecy

It is estimated that criminals launder hundreds of billions of dollars globally each year. It was recently reported that Citibank, the nation's largest bank, failed to follow Federal guidelines to prevent money laundering and allowed as much as \$800 million in suspicious Russian funds to flow through 136 accounts. In an audit we performed on the Office of the Comptroller of the Currency's (OCC) Bank Secrecy Act (BSA) examinations, we identified the need for OCC to strengthen examination procedures in several areas. We found that OCC examiners did not always perform complete BSA examinations, including (1) following up on indicators of suspicious activity and (2) performing sufficient reviews of high-risk accounts. OCC agreed to take a number of actions, which should improve BSA examinations. Our work on Customs' strategic money laundering initiatives has revealed opportunities for expanding its intelligence capabilities. In response to another recent audit, Customs' Report of Transportation of Currency or Monetary Instruments was revised

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to require the reporting of additional types of monetary instruments.

4. Narcotics Interdiction and Trade Enforcement

Despite years of concerted Federal effort, drug smuggling continues unabated. As an indicator of the magnitude of the illicit drug trade and challenges faced by Customs to stop it, the Office of National Drug Control Policy reported that over 1,120 tons of cocaine entered the United States during Fiscal Year (FY) 1999. For the same period, Customs reported that it had seized 172 tons of cocaine. Our prior audits have disclosed that Customs needs better narcotics examination criteria, better targeting systems, and more consistency in the performance and reporting of narcotics examinations.

In FY 2001, Customs expects to process 25 million entry summaries valued at \$1.3 trillion, 503 million persons, and 149 million conveyances. However, the automated system Customs uses to process merchandise is outdated and unable to keep up with trade demands. The system also has significant control weaknesses. Customs recognizes that its ability to process the growing volume of imports, while improving compliance with trade laws, depends heavily on its modernization of the trade compliance process and supporting automated systems. The success of this effort is contingent on how well and how soon Customs is able to implement ACE.

5. Revenue Protection

Based on our work, we believe that stronger internal controls and system improvements would increase revenues collected by Customs and the Bureau of Alcohol, Tobacco and Firearms (ATF). For example, Customs recognizes its revenue collection rate is less than 100 percent and reported a revenue gap (the estimated net amount owed the government for non-compliant consumption entries) of \$252 million for FY 1999. We believe Customs could significantly reduce uncollected revenue through its planned large-scale systems improvements discussed previously. Our recent audits of ATF have also identified control weaknesses over the tax-free status of tobacco and spirits exports.

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6. Violent Crime

Despite a decline in the overall crime rate, violent crime remains a serious problem in the United States and remains the nation's number one public safety concern. Our recent audits of a major ATF program aimed at reducing violent crime, the Youth Crime Gun Interdiction Initiative (YCGII), found a number of opportunities for improvement. YCGII has the primary goals of tracing every recovered crime gun in participating cities through ATF's National Tracing Center and analyzing the resulting crime gun information to determine the community-wide patterns relating to recovered firearms. We found that ATF needed to do a better job of implementing the YCGII program and accounting for resources. Also, ATF needed to develop performance indicators that better measure YCGII's impact on reducing violent crime committed by youth. ATF agreed with our audit recommendations and is taking corrective actions.

7. Implementation of the Government Performance and Results Act

Integrating the Government Performance and Results Act's (GPRA) reporting requirements with traditional budget formulation and execution activities and the financial reporting requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994 continues to serve as a worthwhile challenge for all Federal government agencies, including Treasury. Critical to this challenge are the collection, integration, and management of reliable performance data. To validate Treasury's data, we recently audited the accuracy and reliability of certain key performance measures. Through these audits we identified data errors and made recommendations for improving data reliability. While Treasury has improved the quality of the data stored in its automated and manual systems, we anticipate continued difficulty in the collection and management of reliable performance data.

Additionally, improved managerial cost accounting is necessary for the Department to effectively report and evaluate program performance. Accurate cost information is needed to identify the full costs of programs, activities, and outputs. The linkage of costs with performance measures is essential for informative reporting and meaningful cost/benefit analysis. The Department has initiated actions to improve managerial

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cost accounting; however, at most bureaus these efforts are still in the early stages.

Treasury has improved its strategic planning process and reassessed its strategic goals this past year. As a result of our assessment of Treasury's FY 1999 Performance Report and FY 2001 Performance Plan, Treasury modified the way it tracks performance goals and measures.

8. Financial Management at Treasury/Compliance with the Federal Financial Management Improvement Act

Treasury continues to face significant challenges to meet the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA). FFMIA requires Federal agencies to implement and maintain financial management systems that comply substantially with Federal Financial Management System Requirements, applicable Federal accounting standards, and the U.S. Government Standard General Ledger at the transaction level. As reported in connection with our audit of Treasury's FY 2000 financial statements, Treasury is not in substantial compliance with the requirements of FFMIA.

Treasury, as well as individual component entities that were audited, received unqualified opinions on their FY 2000 financial statements. This is a notable accomplishment, however in certain cases it was achieved only through extensive efforts after year-end to overcome material weaknesses in internal controls to develop auditable financial information. Also, financial systems were not adequately integrated to support fiscal management of program delivery as well as budget execution functions and internal and external financial reporting requirements. These conditions precluded Treasury and a number of its bureaus the ability to generate timely and accurate information for routine operating and decision-making purposes, as well as for annual financial reporting.

9. Safety and Soundness of the Banking Industry

Clearly, a safe and sound banking system is a pre-condition for stability within our financial system. Through OCC and the Office of Thrift Supervision (OTS), Treasury regulates and supervises banks and thrifts with combined assets of over \$4.2 trillion that account for over 58 percent of total industry

Page 7

assets. In addition, OCC-regulated national banks account for approximately \$14.4 trillion of the off-balance-sheet assets, also known as financial derivatives. For nearly a decade the banking industry has experienced record profits, and bank failures continue to be minimal with less than 10 per year since 1995. However, recent signs of a slowing economy have become more evident given higher commodity prices and the spike in corporate bankruptcies. For the second quarter of Calendar Year 2000, the banking industry's earnings not only declined but also were the lowest since 1997.

Aside from fundamental economic factors, added regulatory and supervisory challenges arise out of the recently enacted Gramm-Leach-Bliley Financial Services Modernization Act (GLBA). This legislation lifted decade old restrictions on affiliations among banks, securities firms, and insurance companies. With it, additional supervisory challenges may also arise in other areas such as money laundering, the Community Reinvestment Act, financial privacy, predatory lending, and the expanded sharing of regulatory responsibility under the new law's functional regulation provisions. For example, we recently reported that the business of banking is evolving to include selling insurance, and this activity is expected to expand with the passage of GLBA. While insurance activities have traditionally been under the functional regulation of states, we believe that OCC needs to determine the reliance it can place on state supervision, and better define its supervisory role over national bank insurance activities.

Should you or your staff have questions, you may contact me at (202) 622-1090, or a member of your staff may contact Dennis Schindel, Assistant Inspector General for Audit, at (202) 927-5400.

Summary Report of the Treasury Inspector General
for Tax Administration



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

January 29, 2002

MEMORANDUM FOR SECRETARY O'NEILL

FROM: *David C. Williams*
David C. Williams
Inspector General

SUBJECT: Management and Performance Challenges Facing
the Internal Revenue Service

SUMMARY

The Reports Consolidation Act of 2000 requires that we summarize for you our perspective on the most serious management and performance challenges currently facing the Internal Revenue Service (IRS) for inclusion in the *Department of the Treasury Accountability Report for Fiscal Year 2001*.

The Treasury Inspector General for Tax Administration's (TIGTA) assessment of the major IRS management challenge areas for Fiscal Year (FY) 2002 has not changed substantially from the prior year. While the IRS has acted to address each challenge area, TIGTA was able to remove only the challenge that addressed the organizational restructuring of the IRS. In addition, the TIGTA believes that two other issues will challenge the IRS in the coming years. *Human Capital* and *Complexity of the Tax Law* are being added to the TIGTA's list of challenges facing the IRS.

We have also recategorized or renamed some issue areas. Challenge areas formerly titled *Financial Management* and *Implementation of the Government Performance and Results Act of 1993* have been combined under one area titled *Performance and Financial Management*. The customer service issues previously included in the challenge area titled *Customer Service and Tax Compliance Initiatives* have been moved to the *Providing*

Summary Report of the Treasury Inspector General
for Tax Administration

Quality Customer Service challenge, leaving a challenge area titled *Tax Compliance Initiatives*. Issues in the challenge area formerly titled *Impact of the Global Economy on Tax Administration* have been incorporated in the *Tax Compliance Initiative* challenge area. The challenge previously titled *Revenue Protection – Minimizing Tax Filing Fraud* has been renamed *Erroneous Payments* to emphasize presidential and congressional concerns in this area.

The TIGTA believes the major management challenges, in order of priority, facing the IRS in FY 2002 are:

- Security of the Internal Revenue Service
 - Employees and Facilities
 - Information Systems
- Systems Modernization of the Internal Revenue Service
- Integrating Performance and Financial Management
 - Performance Management
 - Financial Management
- Processing Returns and Implementing Tax Law Changes During the Tax Filing Season
- Complexity of the Tax Law
- Tax Compliance Initiatives
- Providing Quality Customer Service Operations
- Erroneous Payments
- Taxpayer Protection and Rights
- Human Capital

DISCUSSION

Discussion of the major IRS management challenge areas, including examples of relevant TIGTA audit work, follows.

Security of the Internal Revenue Service

The terrorist attacks on September 11, 2001, and the subsequent anthrax scare highlighted new vulnerabilities in many government agencies. Although the IRS has been security conscious because of the very nature of its work, security of IRS employees, facilities, and information systems is now considered as the number one challenge facing the IRS management for FY 2002.

Security of the Internal Revenue Service – The Employees and the Facilities

Immediately after the tragic events in New York City and Washington, DC, the IRS took steps to safeguard IRS personnel and assets. First, the IRS Security Standards were

Summary Report of the Treasury Inspector General
for Tax Administration

reviewed and upgraded as necessary. Second, a preliminary risk assessment survey was completed for all 785 IRS offices. The survey results will identify offices that need additional safety measures and help prioritize improvement projects. In addition, extra precautionary measures were implemented for mail and package handling.

Security of the Internal Revenue Service – The Information Systems

Considering the amount and sensitivity of the data the IRS is charged with protecting and the amount of revenue it collects, the IRS is a highly visible target for hackers, disgruntled employees, etc. Access to the Internet and the linking of internal computer systems have greatly increased the risk of loss or theft. Despite the IRS' significant efforts and accomplishments over the past few years, the overall level of security over the IRS' information systems is not yet adequate.

At the Internet gateways, which control external access into the IRS network, firewalls and routers were not upgraded to protect against commonly known weaknesses, configurations were weak, changes to configurations were not documented, activity logs were not generated or reviewed, and sufficient and capable staffing was not assigned to administer the firewalls. Furthermore, the IRS still does not have the capability to detect intrusions at all entry points from the Internet.

Internally, weaknesses with network operating system controls, physical security, and access privileges still exist. Due to the interconnectivity of systems within the IRS, these weaknesses are significant. Unauthorized persons gaining access to a computer in even the smallest post-of-duty can potentially access data in any of the computing centers. The IRS, however, still does not routinely run or review activity logs on network servers to detect potential internal security breaches.

Systems Modernization of the Internal Revenue Service

The IRS Restructuring and Reform Act of 1998 (RRA 98)¹ mandated that the IRS reorganize around groups of taxpayers with similar needs and place a greater emphasis on serving taxpayers and meeting their needs. The success of the IRS' reorganization is dependent upon revising its business processes and implementing new computer systems to better serve the specialized needs of these groups. Given the IRS' past history in modernizing its computer systems, this is a major challenge.

Some of IRS' key goals, such as 80 percent of tax returns being filed electronically by Year 2007 and significantly improving levels of service in answering taxpayer questions, are contingent on the development of new technology. Furthermore, while the development of new technology evolves, existing operations must continue plus improvements must be

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

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for Tax Administration

made to meet the needs of tax administration and to demonstrate to taxpayers the IRS' commitment to improved services.

Integrating Performance and Financial Management

Improving performance is an overall goal of the Federal government. Furthermore, without accurate and timely financial information, it is not possible to accomplish the President's agenda to secure the best performance and highest measure of accountability for the American people.

Performance Management

The IRS management has taken several steps to address the issues concerning implementing the Government Performance and Results Act (GPRA),² administering the *Customer Satisfaction Survey* process, and managing the *Annual Program Performance Report* process. The IRS Commissioner designated the Deputy Commissioner and the Chief Financial Officer as responsible for the macro-level GPRA processes and the operating unit executives as responsible for implementing the GPRA in their respective areas. The IRS has made changes to its performance management process to help better define and report on measures and is planning to qualify some data. In addition, the IRS has issued procedures for reporting on the IRS' critical measures, requiring that data and supporting documentation be verified and approved prior to being reported to the Treasury Department.

Financial Management

According to the General Accounting Office's (GAO) report for the FY 2000 audit of the IRS, the IRS continues to face most of the pervasive systems and internal control weaknesses that have been reported each year since GAO began auditing the IRS' financial statements in FY 1992. Despite these weaknesses, in FY 2000 the IRS was able to produce, for the first time, combined financial statements covering its tax custodial and administrative activities that are fairly stated in all material respects. This achievement was the culmination of two years of extraordinary effort on the part of the IRS. The IRS developed compensating processes to work around its serious systems and control weaknesses in order to derive year-end balances for its financial statements. In addition, the IRS addressed several of the management issues raised in previous reports.

Achieving this unqualified opinion relied heavily on costly, time consuming processes, statistical projections, external contractors, substantial adjustments, and monumental human effort. These costly efforts would not have been necessary if the IRS' systems and controls operated effectively. In addition, the absence of effective systems and

² Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

Summary Report of the Treasury Inspector General
for Tax Administration

controls means that the IRS lacks, on an ongoing basis, the timely, accurate, and useful information needed to make informed management decisions.³

Processing Returns and Implementing Tax Law Changes During the Tax Filing Season

The filing season impacts every American taxpayer and is, therefore, a highly critical program for the IRS. Programs, activities, and resources have to be planned and managed effectively each filing season. During the 2000 Filing Season, the IRS effectively processed paper individual tax returns. Nevertheless, the IRS could have more effectively implemented tax law changes during the 2000 Filing Season for certain program areas, such as the Child Tax Credits, Credits for the Elderly or the Disabled, Child and Dependent Care Credits, Mortgage Interest Credits, and Education Credits.

Furthermore, opportunities still exist for the IRS to more effectively implement tax law changes and process tax returns for business taxpayers. Some examples include ensuring only taxpayers liable for the corporate Alternative Minimum Tax actually pay the tax; ensuring the payment vouchers and tax returns accurately reflect the taxpayer name and identification number, developing controls to increase the accuracy of electronic partnership returns, identifying incorrectly filed Personal Service Corporation Income Tax Returns, and simplifying the estimated tax penalty computation.

Complexity of the Tax Law

Tax law complexity is the highest-ranking problem individual and business taxpayers had with the IRS, according to the *FY 2000 Taxpayer Advocate's Annual Report to the Congress*. The Advocate also identified tax law complexity as the root cause of many of the other problems on the Top 20 list, including clarity and tone of IRS communications, inability to access the toll-free number, compliance burden on small businesses, administration of the Earned Income Credit (EIC), lack of one-stop service, penalty administration, understanding Federal tax deposits, and divorced and separated taxpayers issues.

In its *FY 2001 Annual Report to Congress*, the National Taxpayer Advocate takes tax law simplification a step further, focusing on key legislative proposals that create a more burdensome and confusing voluntary tax system for even the most compliant taxpayers. The report outlines proposals to simplify or clarify six areas of tax law – family status issues, joint and several liability, alternative minimum tax for individuals, penalty and interest issues, home-based service workers, and IRS collection procedures. It also lists additional legislative issues, as well as some potential legislative issues, that merit further consideration.

³ *United States General Accounting Office Report to the Secretary of the Treasury – IRS' Fiscal Year 2000 Financial Statements, March 2001.*

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The Joint Committee staff identified some causes of complexity: 1) a lack of clarity and readability of the law; 2) the use of the Federal tax system to advance social and economic policies; 3) increased complexity in the economy; and 4) the interaction of Federal tax laws with State laws, other Federal laws and standards (such as Federal securities laws, Federal labor laws and generally accepted accounting principles), the laws of foreign countries, and tax treaties. In addition, the lack of clarity and readability of the law results from 1) statutory language that is, in some cases, overly technical and, in other cases, overly vague; 2) too much or too little guidance with respect to certain issues; 3) the use of temporary provisions; 4) frequent changes in the law; 5) broad grants of regulatory authority; 6) judicial interpretation of statutory and regulatory language; and 7) the effects of the Congressional budget process.

Tax Compliance Initiatives

The IRS' goal of providing world-class service to taxpayers hinges on the theory that, if the IRS provides the right mix of education, support, and up-front problem solving to taxpayers, the overall rate of voluntary compliance with the tax laws will increase. The challenge to the IRS management is to establish a tax compliance program (examining tax returns and collecting tax liabilities) that identifies those citizens who do not meet their tax obligations, either by not paying the correct amount of tax or not filing proper tax returns.

During the last decade, the number of tax returns selected for examination by the IRS has decreased, while the number of tax returns filed by taxpayers has increased. Additionally, revenue receipts processed by the IRS increased from \$1.5 trillion in FY 1996 to \$1.9 trillion in FY 2000. However, revenue collected as a result of compliance activity decreased by \$5 billion and gross accounts receivable increased by \$41 billion during the same period. Decreases in the examination rate can be partially attributed to fewer revenue agents and tax auditors, a decline in direct examination time, and an increase in time per return by revenue agents. Decreased enforcement has been attributed to reduced resources allocated to compliance activities and IRS employees' concerns over the mandatory employment termination provision in Section 1203 of RRA 98.

Providing Quality Customer Service Operations

Providing top quality service to every taxpayer in every transaction is integral to the IRS' modernization plans. There are many ways in which the IRS provides customer service. The most direct include toll-free telephone service, electronic customer service, written communications to taxpayers, walk-in service, and accurate and timely tax refunds. Each of these services affects a taxpayer's ability and desire to voluntarily comply with the tax laws. Providing these services in a high-quality manner can also be a challenge to the IRS.

Quality service at IRS Taxpayer Assistance Centers (TAC) continues to be a major concern. Both an IRS study conducted during the 2000 Filing Season and a TIGTA audit

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conducted during the 2001 Filing Season reported low accuracy rates on tax law questions answered by a sampling of IRS assistors. In addition, TIGTA auditors, who posed as walk-in taxpayers, were not provided correct or sufficient answers 73 percent of the time, and, in some instances, were treated with discourtesy or had excessive wait time. Audit test calls to the Spanish language option on the IRS' toll-free telephone helpline identified a need for improvement in the quality of responses being provided to Spanish-speaking taxpayers asking tax law questions.

Internet technology affords the IRS many opportunities to dramatically improve customer service, and the IRS has made strides in using these technologies. An IRS web site that provides taxpayers with convenient access to tax forms and information received over one billion accesses during this past filing season alone. However, inadequate systems design and planning have hindered other efforts. For example, to better serve customers and relieve some of the call volumes from the toll-free system, the IRS has been planning, since 1996, to implement an Internet-based refund status application. This application is now scheduled to be available to taxpayers by the beginning of the 2002 filing season.

Erroneous Payments

Both the President and the Congress have expressed concerns with the large amount of erroneous payments made by Federal agencies. Improper payments include inadvertent errors; payments for unsupported or inadequately supported claims; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from outright fraud and abuse by program participants and/or Federal employees. Stewardship responsibility over public funds is a major challenge facing IRS management.

The EIC Program continues to be a highly visible area of potential fraud. To combat potential EIC fraud, the IRS launched promising new compliance initiatives. For example, partnerships with the Department of Health and Human Services and the Social Security Administration will permit the IRS to crosscheck information on the child and the taxpayer. However, despite extensive IRS programs and efforts to address certain refund schemes, relatively little effort has been made to systematically identify those schemes involving business returns and associated credits. While a few business schemes have been identified, it has generally been through labor-intensive manual procedures. The IRS is concerned that fraudulent refund claims may be expanding to include business returns, and that scheme perpetrators may be using the Internet or other means to promote and advertise their schemes.

Taxpayer Protection and Rights

The RRA 98, which was signed into law on July 22, 1998, contains 71 provisions that increase or help protect taxpayers' rights. The IRS is now fully compliant with three provisions, i.e., *Mitigation of the Failure to Deposit Penalty* (RRA § 3304(a)), *Seizure of Property* (RRA §§ 3401(b) and 3421), and *Notice of Levy* (RRA 98 § 3401(b)). For another

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seven provisions, the IRS is taking additional corrective actions to increase compliance. However, the IRS did not fully comply with two of the RRA 98 provisions because of delays and other implementation problems. Additional actions are needed to implement these provisions: *Dual Notices for Joint Filers (RRA 98 § 3201)* and *Collection Statute Extensions (RRA 98 §§ 3461(a) and (c))*. An extension of the implementation deadline had been requested or the compliance could not be fully evaluated on another six provisions.

Additionally, the IRS Commissioner has expressed, before the Congress, concerns about treating taxpayers fairly. The IRS has indicated to the Congress its commitment to treat all taxpayers equitably, and strategic plans indicate equitable treatment of taxpayers is included in efforts to promote compliance among business taxpayers. However, the TIGTA is concerned about possible inequities between the different taxpayer groups. For example: the Wage and Investment Income (W&I) Division characterizes its taxpayers as highly compliant, which it attributes to its document-matching program. Conversely, the Small Business/Self-Employed (SB/SE) Division acknowledges that the largest part of the tax gap is attributed to the taxpayers it serves. Business income, however, is not subject to similar matching programs.

Human Capital

Like many other government agencies, the IRS faces a range of serious personnel management issues, ranging from recruiting, training, and retaining employees to problems associated with the IRS' recent reorganization and modernization efforts. During FY 2001, the IRS struggled with a continuing need to properly staff, train, and provide adequate tools for employees. In some cases, such as the lack of resources for visually impaired telephone assistants, the IRS was at risk of civil suits.

Retention of a qualified work force continues to be a challenge for the IRS, particularly the Large and Mid-size Business (LMSB) and SB/SE Divisions. During the recent reorganization, much of the experienced staff were assigned to these divisions, and many of these employees will be eligible for retirement within the next five or six years. Both the LMSB and SB/SE Divisions have taken various steps to establish a human capital plan. The LMSB Division developed an accelerated skill attainment program, a coaching/mentoring implementation plan, and an innovative recognition program. The SB/SE Division developed a learning and education organization blueprint and conducted career path reviews.

Discussion of the issue removed from the major IRS management challenge areas follows.

Modernization of the Internal Revenue Service – Organizational Restructuring

On October 1, 2000, IRS achieved the first milestone toward modernization by implementing its new organizational structure. The four major components of the new IRS – the W&I, the SB/SE, the LMSB, and the Tax Exempt and Government Entities (TE/GE)

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Division – substantially completed the critical elements needed for standing up. Specifically, most key management positions were filled, most employees had been realigned, finance offices and budgets were established, many delegations of authority were revised, and detailed plans of workarounds⁴ were developed. In addition to the four major business units, other key IRS offices, such as the Criminal Investigation function, the Taxpayer Advocate Service, and the Appeals function, also successfully implemented a new structure. Therefore, the TIGTA believes that the organizational restructuring is complete but, to be effective, new business processes and computer systems need to be implemented. The new processes and systems implementation will be examined under the other challenge area.

⁴ Temporary solution to a problem that allows a new organization to be operational until a final solution can be developed and implemented.

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Part 3

FINANCIAL STATEMENTS AND NOTES

Consolidated Balance Sheet
As of September 30, 2001 and 2000
(In Millions)

	FY 2001	FY 2000
ASSETS		
Intra-governmental Assets		
Fund Balance (Note 2)	\$56,645	\$60,920
Loans and Interest Receivable (Note 3)	223,098	209,792
Advances to the Black Lung Trust Fund (Note 4)	7,254	6,749
Accounts Receivable and Related Interest (Note 11)	746	1,007
Due from the General Fund, Net (Note 5)	5,527,925	5,398,730
Other Intra-governmental Assets	26	76
Total Intra-governmental Assets	5,815,694	5,677,274
Cash, Foreign Currency & Other Monetary Assets (Note 6)	73,265	76,166
Gold and Silver Reserves (Note 7)	10,933	10,933
Loans and Interest Receivable (Note 3)	1,486	1,776
Investments and Related Interest (Note 8)	6,902	4,728
Reserve Position in International Monetary Fund (Note 9)	18,407	13,690
Investments in International Financial Institutions (Note 10)	5,154	5,138
Tax/Trade, Other Receivables, and Related Interest, Net (Note 11)	21,365	23,649
Inventory and Related Property, Net (Note 12)	643	613
Property, Plant and Equipment, Net (Note 13)	3,290	2,791
Other Assets	162	96
Total Assets	5,957,301	5,816,854
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Note 15)	2,472,037	2,237,059
Loans Payable and Interest (Note 16)	15,337	15,337
Other Intra-governmental Liabilities	770	743
Total Intra-governmental Liabilities	2,488,144	2,253,139
Federal Debt and Interest Payable (Note 15)	3,332,796	3,427,094
Certificates Issued to Fed Reserve Banks (Note 17)	2,200	3,200
Allocation of Special Drawing Rights (Note 6)	6,316	6,359
Gold Certificates Issued to Federal Reserve Banks (Note 7)	10,924	10,924
Refunds and Drawbacks (Note 30)	1,552	1,274
DC Pension Liability (Note 18)	8,196	7,558
Other Liabilities	5,102	4,200
Total Liabilities	5,855,230	5,713,748
Net Position (Note 21)		
Unexpended Appropriations	52,920	58,109
Cumulative Results of Operations	49,151	44,997
Total Net Position	102,071	103,106
Total Liabilities and Net Position	\$5,957,301	5,816,854

Commitments & Contingencies (Note 19)

The accompanying notes are an integral part of these statements.

**Consolidated Statement of Net Cost
For the Year Ended September 30, 2001
(In Millions)**

	Combined	Elimination	Consolidated
Costs:			
Economic Program:			
Intra-governmental Costs			
Production	\$191	(\$10)	\$181
With the Public			
Production	3,348	0	3,348
Total	3,539	(10)	3,529
Less Earned Revenues	1,836	(534)	1,302
Net Economic Program Costs	1,703	524	2,227
Financial Program:			
Intra-governmental Costs			
Production	6,309	(2,256)	4,053
With the Public			
Production	10,658	0	10,658
Non-production	1	0	1
Total	16,968	(2,256)	14,712
Less Earned Revenues	6,601	(371)	6,230
Net Financial Program Costs	10,367	(1,885)	8,482
Law Enforcement Program:			
Intra-governmental Costs			
Production	961	(270)	691
With the Public			
Production	3,148	0	3,148
Total	4,109	(270)	3,839
Less Earned Revenues	215	(68)	147
Net Law Enforcement Program Costs	3,894	(202)	3,692
Costs Not Assigned to Programs:			
Intra-governmental	124	17	141
With the Public	664	0	664
Total	788	17	805
Less Earned Revenues Not Assigned to Programs	465	(271)	194
NET COST OF TREASURY OPERATIONS	16,287	(1,275)	15,012
Federal Debt Interest	362,825	(763)	362,062
Less Interest Revenue From Loans	13,346	(1,986)	11,360
NET FEDERAL DEBT INTEREST COSTS	349,479	1,223	350,702
Federal Debt Buyback Loss	10,715	0	10,715
Other Federal Costs	7,733	0	7,733
NET COST OF TREASURY OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS	\$384,214	(\$52)	384,162

Note: The Combined Statement of Financing does not include intra-agency eliminations.
Note 22 provides additional cost information by Treasury reporting component.

The accompanying notes are an integral part of these statements.

**Consolidated Statement of Net Cost
For the Year Ended September 30, 2000
(In Millions)**

	Combined	Elimination	Consolidated
Costs:			
Economic Program:			
Intra-governmental Costs			
Production	\$209	(\$7)	\$202
With the Public			
Production	3,854	0	3,854
Total	4,063	(7)	4,056
Less Earned Revenues	2,138	(832)	1,306
Net Economic Program Costs	1,925	825	2,750
Financial Program:			
Intra-governmental Costs			
Production	6,187	(2,271)	3,916
With the Public			
Production	9,700	0	9,700
Non-production	10	0	10
Total	15,897	(2,271)	13,626
Less Earned Revenues	7,928	(107)	7,821
Net Financial Program Costs	7,969	(2,164)	5,805
Law Enforcement Program:			
Intra-governmental Costs			
Production	915	(193)	722
With the Public			
Production	2,437	0	2,437
Total	3,352	(193)	3,159
Less Earned Revenues	177	(92)	85
Net Law Enforcement Program Costs	3,175	(101)	3,074
Costs Not Assigned to Programs:			
Intra-governmental	165	(46)	119
With the Public	819	0	819
Total	984	(46)	938
Less Earned Revenues Not Assigned to Programs	603	(462)	141
NET COST OF TREASURY OPERATIONS	13,450	(1,024)	12,426
Federal Debt Interest	366,496	(1,068)	365,428
Less Interest Revenue From Loans	12,132	(2,068)	10,064
NET FEDERAL DEBT INTEREST COSTS	354,364	1,000	355,364
Federal Debt Buyback Loss	5,519	0	5,519
Other Federal Costs	8,403	0	8,403
NET COST OF TREASURY OPERATIONS, FEDERAL DEBT INTEREST, FEDERAL DEBT BUYBACK LOSS, AND OTHER FEDERAL COSTS	\$381,736	(\$24)	\$381,712

Note: The Combined Statement of Financing does not include intra-agency eliminations.
Note 22 provides additional cost information by Treasury reporting component.

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2001
(In Millions)

Net Cost of Operations	\$384,162
Financing Sources: (Non-Exchange)	
Appropriations Used	647,441
Revenue from Forfeiture	143
Imputed Financing Sources	628
Financing Sources for Accrued Interest & Discount on the Debt	(6,310)
Transferred In	336
Transferred Out	(5)
Transferred Out to General Fund of Treasury	(255,284)
Other	1,272
Total Financing Sources	388,221
Net Results of Operations	4,059
Prior Period Adjustments (Note 21)	95
Net Change in Cumulative Results of Operation	4,154
Increase (Decrease) in Unexpended Appropriations	(5,189)
Change in Net Position	(1,035)
Net Position – Beginning of the Period	103,106
NET POSITION – End of the Period (Note 25)	\$102,071

Note 25 provides the Combining Statement of Changes in Net Position by each Treasury reporting component.

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources
For the Year Ended September 30, 2001
(In Millions)

Budgetary Resources

Budget Authority	\$399,307
Unobligated Balance	160,411
Spending Authority from Offsetting Collections	787
Adjustments, Anticipated for Rest of Year	(118,340)
Total Budgetary Resources	\$442,165

Status of Budgetary Resources

Obligations Incurred	\$405,133
Unobligated Balances Available	35,793
Unobligated Balances Not Available	1,239
Total Budgetary Resources	\$442,165

Outlays

Obligations Incurred	\$405,133
Spending Authority from Offsetting Collections & Adjustments	(1,173)
Obligated Balance, Net - Beginning of the Period	8,212
Obligated Balance Transferred, Net	0
Obligated Balance, Net - End of Period	(8,469)
TOTAL OUTLAYS	\$403,703

Note: The Combined Statement of Budgetary Resources does not include intra-agency eliminations.

The accompanying notes are an integral part of these statements.

Combined Statement of Financing
For the Year Ended September 30, 2001
(In Millions)

Obligations and Nonbudgetary Resources

Obligations Incurred	\$405,133
Less: Spending Authority from Offsetting Collections and Adjustments	(1,173)
Imputed Financing	663
Financing Source for Accrued Interest & Discount on the Debt	(6,310)
Transfers-in (out)	(1,424)
Exchange Revenue Not in the Budget	(13,462)
Nonexchange Revenue Not in the Budget	1
Trust or Special Fund Receipts	(168)
Other	57
Total Obligations as Adjusted and Nonbudgetary Resources	383,317

Resources Not Funding Net Cost of Operations

Change in Undelivered Orders	(59)
Change in Unfilled Customer Orders	(14)
Capitalized Costs	(1,094)
Financing Sources that Fund Costs of Prior Periods	(92)
Adjustments for Trust Fund Outlays not Affecting Net Cost	(5)
Other	(39)
Total Resources Not Funding Net Costs of Operations	(1,303)

Costs Not Requiring Resources

Depreciation and Amortization	566
Bad Debts	2
Revaluation of Assets and Liabilities	788
Disposition of Assets	(31)
Other	9
Total Costs Not Requiring Resources	1,334

Financing Sources Yet to Be Provided	866
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Net Cost of Operations	\$384,214
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Note: The Combined Statement of Financing does not include intra-agency eliminations.

The accompanying notes are an integral part of these statements.

Statement of Custodial Activity
For the Years Ended September 30, 2001 and 2000
(In Millions)

	FY 2001	FY 2000
Sources of Custodial Revenue & Collections		
Revenue Received (Note 29)		
Individual Income and FICA Taxes	\$1,843,774	\$1,764,269
Corporate Income Taxes	186,468	235,393
Estate and Gift Taxes	29,248	29,722
Excise Taxes	68,193	70,194
Railroad Retirement Taxes	4,703	4,762
Duties	19,655	20,556
Fees & Licenses	856	2,069
Unemployment Taxes	7,064	6,986
Deposit of Earnings, Federal Reserve System	26,124	32,293
Fines, Penalties, Interest & Other Revenue	2,681	3,414
TOTAL REVENUE RECEIVED	2,188,766	2,169,658
Less Payments from permanent, indefinite appropriations for refunds of taxes and duties (including related interest), duty drawback, and earned income credit (Note 30)	(251,842)	(195,323)
NET REVENUE RECEIVED	1,936,924	1,974,335
Accrual Adjustment	(2,958)	1,747
TOTAL REVENUE	\$1,933,966	\$1,976,082
DISPOSITION OF CUSTODIAL REVENUE & COLLECTIONS		
Amounts Provided to Non Federal Entities	382	303
Amounts Provided to Fund the Federal Government	1,936,542	1,974,032
Accrual Adjustment- (See Same Line Item Above)	(2,958)	1,747
Total Disposition of Custodial Revenue & Collections	\$1,933,966	\$1,976,082
NET CUSTODIAL REVENUE ACTIVITY	\$0	\$0

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department was created by Act (1 Stat.65) on September 2, 1789. Many subsequent acts have figured in the development of the Department, delegating new duties to its charge and establishing the numerous bureaus and divisions that now comprise the Department. As a major policy advisor to the President, the Secretary has primary responsibility for formulating and managing the domestic and international tax and financial policies of the Federal Government.

Further, the Secretary is responsible for recommending and implementing United States domestic and international economic and tax policy; fiscal policy; governing the fiscal operations of the Government; maintaining foreign assets control; managing the Federal debt; overseeing the law enforcement functions carried out by the Department; managing the development of financial policy; representing the United States on international monetary, trade and investment issues; overseeing Departmental overseas operations; and directing the activities of the Department in manufacturing coins, currency, and other products for customer agencies and the public.

The Department is comprised of the Departmental Offices, Office of Technical Assistance, the Office of Inspector General, the Treasury Forfeiture Fund, the Exchange Stabilization Fund, the Federal Financing Bank, the Financial Crimes Enforcement Network, the Community Development Financial Institutions Fund, the Office of D.C. Pensions, Treasury Inspector General for Tax Administration, as well as the following eleven bureaus: Bureau of Alcohol, Tobacco and Firearms; Office of the Comptroller of the Currency; U.S. Customs Service; Bureau of Engraving and Printing; Federal Law Enforcement Training Center; Financial Management Service; Internal Revenue Service; U.S. Mint; Bureau of the Public Debt; U.S. Secret Service; and Office of Thrift Supervision.

The accompanying financial statements reflect the activities of the U.S. Department of the Treasury. The Department's financial statements reflect the reporting of its own entity activities which include appropriations it receives to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the Federal Government and others. Non-entity activities include the collection of Federal revenue, servicing the Federal debt, disbursing certain Federal funds, and maintaining certain assets and liabilities for the Federal Government as well as for others.

Revenues, expenses, assets, and liabilities resulting from transactions between the various Treasury entities for both entity and non-entity activities have been eliminated in preparing the accompanying consolidated financial statements. Non-entity and entity activity eliminated on the Department's balance sheet includes investments and debt of \$14.9 billion as of September 30, 2001 (\$16 billion as of September 30, 2000). It also includes loans and borrowings of \$31 billion as of September 30, 2001 and September 30, 2000. In terms of revenue and expenses, \$2.8 billion was eliminated between entity and non-entity activities (\$3.1 billion for fiscal year ended September 30, 2000).

B. Basis of Accounting & Presentation

The financial statements have been prepared from the accounting records of Treasury in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Bulletin No. 97-01, Form and Content of Agency Financial Statements, and those portions of OMB Bulletin 01-09 applicable for FY 2001. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), the official accounting standards-setting body of the Federal Government recognized by the American Institute of Certified Public Accountants.

These financial statements are provided to meet the requirements of the Government Management Reform Act. They consist of the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of changes in net position, the combined statement of budgetary resources, the combined statement of financing, and the consolidated statement of custodial activity. Of these, the consolidated balance sheet, the consolidated statement of net cost, the consolidated statement of custodial activity, and the related notes are prepared in a comparative form to present both FY 2001 and FY 2000 information as prescribed by OMB Bulletin No. 97-01, as amended. Certain FY 2000 financial statement and note amounts have been reclassified for comparative purposes.

While these financial statements have been prepared from the books and records of the entity in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

C. Tax/Trade and Other Non-Entity Receivables

Tax/Trade receivables are not accrued until related tax returns are filed, assessments are made, and prepayments are netted against liabilities. Accruals are made to reflect penalties and interest on tax/trade receivables through the balance sheet date. Further, there are differences in recording assessments that should be reported on the balance sheet (tax/trade receivables) and those that should be disclosed as compliance assessments and write-offs. A summary of each category follows:

Tax/Trade Receivables consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers for which the Department can support the existence of a receivable through taxpayer agreement, such as filing a tax return without sufficient payment, or a court ruling in favor of the Department. Tax/Trade receivables are shown on the balance sheet net of an allowance for doubtful accounts. The allowance for doubtful accounts reflects an estimate of the portion deemed to be uncollectible.

Compliance Assessments are unpaid assessments in which neither the taxpayer nor a court has affirmed that the taxpayer owes amounts to the Federal Government. Examples include assessments resulting from an audit or examination in which the taxpayer does not agree with the results of the audit or examination.

These assessments are not reported in the financial statements. However, statutory provisions require that these accounts be maintained until the statute date for collection expires.

Write-offs consist of unpaid assessments on which the Department does not expect further collections due to factors such as the taxpayer's death, bankruptcy, or insolvency. These amounts are not reported on the balance sheet as they are deemed uncollectible. However, statutory provisions require that these accounts be maintained until the statutory period for collection expires.

Other non-entity accounts receivable and related interest are recognized for amounts due to the Federal Government. These amounts include interest outstanding on monies deposited in Federal Reserve Banks. It also includes amounts Federal agencies owe to the Federal Government for the payment of water and sewage service which is a payment made by the Department on behalf of the Federal Government. Also recorded as other non-entity receivables are certain loans made to foreign governments.

D. Investments

Investments are stated at amortized cost, which is an approximation of fair value. Premiums and discounts on investments are amortized using the straight line and effective interest methods.

Investments are adjusted to market value if Treasury intends to sell the security prior to maturity and there is a reduction in the security that is more than temporary.

E. Inventories and Related Property

Inventories and related property include inventory, operating materials and supplies, and forfeited property. The Department utilizes various accounting methods to value inventory and operating supplies, which approximates historical costs. All operating materials and supplies are recorded as an expense when consumed in operations.

Recognition of revenue from the forfeiture of property is deferred until the property is sold, or transferred to a state, local, or federal agency, or to a foreign government. Revenue is not recorded if the forfeited asset is ultimately destroyed, such as counterfeit property.

F. Loans and Interest Receivable - from Other Federal Agencies

Intra-governmental entity Loans and Interest Receivable, from other Federal agencies, represent loans and interest receivable held by the Department. No subsidy costs were recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers, because these are guaranteed (interest and principal) by those agencies.

Intra-governmental non-entity Loans and Interest Receivable from Other Federal Agencies represent loans issued by the Department to Federal agencies on behalf of the Federal Government. The Department acts as an intermediary issuing these loans, because the agencies receiving these loans will lend these funds to others to carry out various programs of the Federal Government. Because of the Department's intermediary role in issuing these loans, the Department does not record an allowance or subsidy costs related to these loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the Federal agency that issues the loans.

G. Property, Plant and Equipment

The Department's property, plant and equipment is recorded at cost and is depreciated using the straight line method over the estimated useful lives of the assets. Major alterations and renovations are capitalized, while maintenance and repair costs are charged to expense as incurred. The Department owns the Treasury building - a multi-use heritage asset. The Department also has four multi-use heritage assets located in Puerto Rico. Multi-use heritage assets are assets of historical significance whose predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury building are capitalized as general PP&E and depreciated over their service life.

The Department is comprised of many bureaus that are diverse both in size and in operating environment. Accordingly, the Department's capitalization policy uses ranges rather than setting specific capitalization thresholds. The Department's capitalization policy permits the management of each of the Department's bureaus to select an appropriate capitalization threshold within the range of \$25,000 minimum and \$50,000 maximum. The Department also uses ranges for bulk purchases: \$250,000 minimum and \$500,000 maximum for non-manufacturing bureaus and \$25,000 minimum and \$50,000 maximum for manufacturing bureaus. Bureaus determine the individual item cost that will be applied to bulk purchases. In addition, the Department's bureaus may expense bulk purchases if they conclude that total period costs would not be materially distorted and the cost of capitalization is not economically feasible.

H. Federal Debt

Debt and associated interest is reported on the accrual basis of accounting. Certain debt securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using the effective interest method for zero coupon bonds and the straight-line method, which is not materially different from the effective interest method, for other securities.

Appropriations used to pay the interest expense of the debt are recognized only to the extent of the cash disbursement on the statement of changes in net position. Because the department recognizes appropriations used only to the extent of the cash disbursement, the Department reports in a similar fashion the obligations incurred for the interest expense on the Statement of Budgetary Resources. This differs from the amounts that the Department reports to the Office of Management and Budget on the SF 133, Report on Budget Execution. On this OMB report, the Department reports obligations incurred for the cash disbursement and the accrual of the interest expense.

I. Pension Costs, Other Retirement Benefits, and Other Post Employment Benefits

The Department recognizes the full costs of its employees' pension benefits, however, the liability associated with these costs are recognized by the Office of Personnel Management (OPM) rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributed 8.51 percent for regular CSRS employees.

On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law 99-335. Employees hired after December 31, 1983, are automatically covered by FERS and

Social Security. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security. For the FERS basic benefit the Department contributed 10.7 percent for regular FERS employees.

Similar to Federal retirement plans, OPM rather than the Department, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. As a result of SFFAS No. 5, the Department is required to report the full cost of providing other retirement benefits (ORB). In addition, SFFAS No. 5 also requires the Department to recognize an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

Additionally, the Department's Office of the Comptroller of the Currency (OCC) and Office of Thrift Supervision (OTS) separately sponsor certain benefit plans for their employees. OCC sponsors a life insurance benefit plan for current employees who are not enrolled in FEGLI plans. This plan is a defined benefit plan, and OCC is fully responsible for the associated liability. Additionally, OTS provides certain health and life benefits for all retired employees that meet eligibility requirements.

J. D.C. Pensions Program

The Balanced Budget Act of 1997, as amended (the Act), which became effective on October 1, 1997, provides that the Secretary of the Treasury assume certain responsibilities for the District of Columbia pension system, including administration of fund assets and distribution of pension benefits. To varying degrees the Secretary is responsible for three District retirement programs:

- Police Officers' and Firefighters' Retirement Program;
- Teachers' Retirement Program; and
- Judges' Retirement Program.

For the Police Officers, Firefighters and Teachers, the Secretary acting on behalf of the Federal Government is required to pay for benefits earned prior to and on June 30, 1997. The District Government is responsible for paying benefits earned after June 30, 1997. For the Judges, the Secretary, acting on behalf of the Federal Government, is required to pay for benefits earned both before and after June 30, 1997.

The Act established three funds in Treasury to be the source of Federal Benefit Payments:

- District of Columbia Federal Pension Liability Trust Fund -- to pay administrative expenses and make Federal Benefit Payments to retired police officers and firefighters, and teachers.
- Federal Supplemental District of Columbia Pension Fund -- to pay Federal Benefit Payments and administrative expenses after the funds in the Trust Fund have been depleted.
- District of Columbia Judicial Retirement and Survivors Annuity Fund -- to pay administrative expenses and Federal Benefit Payments for the Judges Retirement Plan.

The Department of the Treasury's Office of D.C. Pensions, within the Departmental Offices, administers the Secretary's responsibilities under the Act. The Office of D.C. Pensions is responsible for benefits administration, procurement, information systems, actuarial valuations, investments, and financial reporting.

K. Certificates Issued to Federal Reserve Banks

Certificates issued to Federal Reserve Banks are stated at their face value. It is not practical to estimate the fair value of Certificates Issued to Federal Reserve Banks since these certificates contain no specific terms of repayment.

L. Allocation of Special Drawing Rights

Allocation of Special Drawing Rights are valued as of September 30, 2001 and September 30, 2000, using current exchange rates which approximate their fair value. Footnote Number 6 “Cash, Foreign Currency, and Other Monetary Assets” provides additional information regarding how the allocations are valued.

M. Federal Employee Benefits Payable - FECA Actuarial Liability

The Federal Employees’ Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, and employees who have incurred a work-related injury or occupational disease. These future workers’ compensation estimates were generated from an application of actuarial procedures developed to estimate the liability for FECA benefits. The actuarial liability estimates for FECA benefits include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The Department of Labor began using a new model in FY 2000 for estimating the actuarial liabilities.

N. Revenue & Financing Sources

The Department’s activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). Exchange revenues are recognized when earned; i.e. goods have been delivered or services have been rendered. Non-exchange revenues are accounted for when received by the collecting entity. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the services are provided. The Department also incurs certain costs that are paid in total or in part by other Federal entities, such as pension costs. These subsidized costs are recognized on the Consolidated Statement of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statement of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources such as donations, and transfers of assets without reimbursements also are recognized for the period in which they occurred on the Consolidated Statement of Changes in Net Position.

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statement of Changes in Net Position in accordance with SFFAS No. 7. The costs related to the forfeiture fund program are reported on the Consolidated Statement of Net Cost.

O. Sources of Custodial Revenues and Collections

Non-entity revenue reported on the Department's statement of custodial activity includes cash collected and received by the Department. It does not include revenue collected by other Federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the Federal Government or are earmarked for certain trust funds. Revenue from taxes and duties are recognized when cash is received.

P. Tax Assessments and Abatements

Under the IRC Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs, such as examination, under reporter, substitute for return, and combined annual wage reporting.

The Department also has authority to abate the paid or unpaid portion of an assessed tax, interest and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process (e.g., a qualifying corporation claimed a net operating loss that created a credit that can be carried back to reduce a prior year's tax liability, amended tax returns, correction of an assessment from an enforcement program, taxes discharged in bankruptcy, accepted offers in compromise, penalty abatements for reasonable cause, contested assessments made due to mathematical or clerical errors, and assessments contested after the liability has been satisfied). Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

Types of Taxes

The type of taxes and other revenue received included on the Department's Consolidated Statement of Custodial Activity includes:

Individual Income and FICA Taxes -- Federal income and social security taxes paid under Subtitle A of the Internal Revenue Code (IRC). Pursuant to the Social Security Act, as amended by P.L. 94-202 effective January 1, 1978, Social Security taxes are collected primarily through the Federal Tax Deposit (FTD) system and remitted to the Social Security trust fund.

Corporate Income Taxes -- Federal income taxes paid by businesses under Subtitle A of the IRC.

Estate and Gift Taxes -- Taxes paid under Subtitle B of the IRC.

Excise Taxes -- The Department collects excise taxes for various trust funds and accounts, including the Highway Trust Fund, Airport and Airways Trust Fund, and the Mass Transit Account. Excise taxes are collected on various items including the purchase of airline tickets, gasoline products, and many others. The Department also collects excise taxes on distilled spirits and imported liquor, tobacco, and firearms.

Railroad Retirement Taxes -- The collection of railroad retirement taxes under Subtitle C of the IRC is administered by the IRS as imposed by the Railroad Retirement Tax Act for the purpose of providing retirement benefits for railroad employees.

Duties -- Amounts collected by Customs on imported goods.

Fees and Licenses -- The Department collects various fees. These are mainly collected by Customs, ATF, and BPD.

Unemployment Taxes -- The collection of unemployment taxes under Subtitle C of the IRC is administered by the IRS. Federal unemployment taxes are also collected primarily through the FTD system and remitted to the Department of Labor's Unemployment Trust Fund.

Federal Reserve Earnings -- Funds deposited by the Federal Reserve Banks, from earnings on deposits. Pursuant to Sec. 16 of the Federal Reserve Act, the Federal Reserve Banks remit earnings and deposits to the General Fund.

Fines, Penalties, Interest, and Other Revenue -- Fines assessed for violations, or late charges and interest charged for delinquent payment of taxes. Interest revenue is from the loans provided on behalf of the General Fund to other Federal agencies. Other revenue includes other miscellaneous revenue collected by the Department and deposited into the General Fund.

Disposition of Custodial Revenue Collections

Amounts are recognized as dispositions for: (1) funds deposited to the general fund and other entities; and (2) amounts to be transferred upon collection.

Q. Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax and duty refunds, duty drawbacks, earned income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity of the Department. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the resultant refunds of overpayments are not recognized by the Department as an operating expense of the Department. Consequently, to present refunds as an expense of the Department on the Statement of Net Cost with related appropriations used, would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department also receives permanent and indefinite appropriations to make certain payments on behalf of the United States Government. These appropriations are provided to make payments to the Federal Reserve for services provided. They include appropriations provided to make

other disbursements on behalf of the Federal Government, including payments made to various individuals as the result of certain claims and judgements rendered against the United States.

R. Imputed Costs/Financing Sources

Federal Government entities often receive goods and services from other Federal Government entities without reimbursing the providing entity for all the related costs. In addition, Federal Government entities often incur costs that are paid in total or in part for other entities. These constitute subsidized costs which are recognized by the receiving entity. An imputed financing source is also recognized by the receiving entity. The Department of the Treasury recognized imputed costs and financing sources in fiscal year 2001 to the extent directed by the OMB.

2. Fund Balance with Treasury

A. Fund Balances

As of September 30, 2001 and September 30, 2000, fund balance consisted of the following (in millions):

	As of 9/30/2001			As of 9/30/2000		
	Entity	Non-Entity	Total	Entity	Non-Entity	Total
Appropriated Funds	\$52,533	\$687	\$53,220	\$57,778	\$298	\$58,076
Trust Funds	128	0	128	191	0	191
Revolving Funds	1,346	14	1,360	1,419	13	1,432
Other Fund Types	<u>837</u>	<u>1,100</u>	<u>1,937</u>	<u>777</u>	<u>444</u>	<u>1,221</u>
Total	<u>\$54,844</u>	<u>\$1,801</u>	<u>\$56,645</u>	<u>\$60,165</u>	<u>\$755</u>	<u>\$60,920</u>

B. Status of Fund Balance with Treasury

As of September 30, 2001 and September 30, 2000, the status of fund balance with Treasury consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Unobligated Balance - Available	\$35,793	\$37,338
Unobligated Balance - Unavailable	1,239	1,600
Obligated Balance Not Yet Disbursed	<u>19,613</u>	<u>21,982</u>
Total	<u>\$56,645</u>	<u>\$60,920</u>

C. Entity

Entity fund balance includes balances that are available to pay liabilities and to finance authorized purchase commitments. In addition to amounts received from appropriations to pay salaries and expenses, fund balance also includes amounts received from appropriations to make contributions to various international financial institutions (see Note 10).

Entity appropriated funds consist of \$32.3 billion as of September 30, 2001 (and \$39.8 billion as of September 30, 2000) in obligations for outstanding letters of credit issued to the International Monetary Fund (IMF) and Multi-lateral Development Banks (MDBs), which can draw down on these letters of credit as funds are needed.

Also, included in entity fund balance are restricted amounts, which primarily include collections that can be used to offset certain costs of operations. However, these amounts are restricted from funding the cost of operations until authority is granted through Appropriations Acts.

D. Non-Entity

Non-entity fund balance represents unused balances of appropriations received by various Treasury entities to conduct custodial operations such as the payment of interest on the Federal debt and refunds of taxes, duties, fees, and drawbacks (see Note 14).

Interest accruals are not charged to Interest on Public Debt appropriations. Instead, the interest is charged to the appropriation when paid. Therefore, the interest accruals are no longer included in fund balance.

3. *Loans and Interest Receivable*

Loans and interest receivable represent loans held by the Department arising from its own operations (entity) and loans held on behalf of the Federal Government (non-entity).

Entity

As of September 30, 2001 and September 30, 2000, intra-governmental loans and interest receivable consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Agency Loans Purchased	\$11,080	\$13,278
Direct Loans Purchased	11,313	9,262
Guaranteed Loans	20,554	20,440
Interest Receivable, Intra-governmental Loans	873	1,023
Less Discount	(1)	(1)
Less Allowance on Loans & Interest Receivable	<u>(337)</u>	<u>(255)</u>
Total Entity Loans Receivable - Intra-governmental	<u>\$43,482</u>	<u>\$43,747</u>

Agency loans purchased are either notes or pools of loans sold by Federal agencies in the form of certificates representing shares of ownership in the loan pool. The selling agencies guarantee the principal and interest repayments on the notes or certificates. Guaranteed loans are loans made to non-federal borrowers whose obligation to repay the principal and interest is guaranteed by a federal agency.

As of September 30, 2001 and September 30, 2000, entity loans and interest receivable from non-federal entities consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Direct Loans	\$23	\$15
Less Allowance/Subsidy Cost	<u>(9)</u>	<u>(6)</u>
Total Entity Loans Receivable - Non-Federal Entities	<u>\$14</u>	<u>\$9</u>

Non-Entity

Non-entity loans and interest receivable represent loans managed by the Department on behalf of the Federal Government. The Department is responsible for collecting these loans and transferring the proceeds to the General Fund. These loans are provided to Federal agencies.

As of September 30, 2001, and September 30, 2000, non-entity intra-governmental loans and interest receivable consisted of the following (in millions):

<u>As of September 30, 2001:</u>	<u>Loans Receivable</u>	<u>Interest Receivable</u>	<u>Total 2001</u>
Federal Direct Student Loan Program	\$77,189	\$0	\$77,189
Disaster Loan Fund	9,650	590	10,240
Rural Electrification & Telecommunication Fund	10,293	(2)	10,291
Commodity Credit Corporation	23,896	127	24,023
Rural Housing Insurance Fund	9,267	0	9,267
Federal Housing Administration	4,544	0	4,544
Housing for the Elderly and Handicapped	3,103	149	3,252
Export Import Bank	7,045	0	7,045
Other	32,458	1,307	33,765
Total Non-Entity Loans Receivable	<u>\$177,445</u>	<u>\$2,171</u>	<u>\$179,616</u>

<u>As of September 30, 2000:</u>	<u>Loans Receivable</u>	<u>Interest Receivable</u>	<u>Total 2000</u>
Federal Direct Student Loan Program	\$65,347	\$7	\$65,354
Disaster Loan Fund	9,582	619	10,201
Rural Electrification & Telecommunication Fund	10,077	0	10,077
Commodity Credit Corporation	23,800	210	24,010
Rural Housing Insurance Fund	8,607	0	8,607
Federal Housing Administration	7,155	0	7,155
Housing for the Elderly and Handicapped	3,653	170	3,823
Export Import Bank	6,683	0	6,683
Other	28,837	1,298	30,135
Total Non-Entity Loans Receivable	<u>\$163,741</u>	<u>\$2,304</u>	<u>\$166,045</u>

As of September 30, 2001 and September 30, 2000, non-entity loans and interest receivable from non-federal entities consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Direct Loans	\$1,027	\$1,319
Interest	<u>445</u>	<u>448</u>
Total Non-Entity Loans Receivable - Non-Federal Entities	<u>\$1,472</u>	<u>\$1,767</u>

These amounts include certain loans and credits issued by the United States to various foreign governments. The agreements with each debtor government vary as to dates, interest rates, method of payment, and billing procedures. All such loans and credits represent legally valid and outstanding obligations of foreign governments, and the U.S. Government has not waived or renounced its rights with respect to any of them. All such loans and credits remain due and payable.

This balance includes loans and credits to the Russian Federation that were made under the Lend-Lease program during World War II. U.S. Lend-Lease claims against the former Soviet Union were settled by a 1972 agreement which provided the option to defer up to four scheduled payments. With the dissolution of the Soviet Union, the Russian Federation accepted all of the liabilities of the former Soviet Union, including Lend-Lease debts to the United States. The Russian Federation has not defaulted on any of its Lend-Lease payments to the U.S. It has, however, exercised its deferral options under the 1972 agreement, and rescheduled certain payments under regular Paris Club debt rescheduling agreements in response to imminent default on its external obligations. If Russia were to default on a Lend-Lease payment, the U.S. would be required to revoke Normal Trading Relations (NTR) status with Russia pursuant to a provision in the 1974 Trade Act.

4. Advances to the Black Lung Trust Fund

Advances have been provided to the Black Lung Trust Fund from the General Fund pursuant to 26 USC 9501, and are used to carry out the purposes of this trust fund. The principal and interest on these advances are to be repaid to the General Fund when the Secretary of the Treasury determines that monies are available in the Black Lung Trust Fund for such purposes. Interest is charged from the date funds are advanced to the trust fund.

5. *Due from the General Fund, Net*

The Department is responsible for managing various assets and liabilities on behalf of the Federal Government. Assets managed by the Department on behalf of the General Fund includes cash, silver reserves, loans, advances, and tax/trade receivables. In terms of liabilities, the Department manages the Federal debt as well as tax refunds on behalf of the Federal Government.

Because these assets and liabilities belong to the Federal Government, the Department does not report the net related effect of these transactions in net position. Instead, the Department reports this net effect in the account, "Due from the General Fund." As of September 30, 2001 and September 30, 2000, Due from the General Fund (Net) included the following (in millions):

Liabilities Requiring Funding From the General Fund	<u>2001</u>	<u>2000</u>
Federal Debt & Interest Payable	\$3,332,796	\$3,427,094
Federal Debt & Interest Payable - Intra-governmental	2,472,037	2,237,059
Refunds & Drawbacks	1,443	1,051
Other Liabilities	1	-
Adjustment for Eliminated Investments	<u>14,932</u>	<u>16,011</u>
Total - Due From the General Fund	<u>\$5,821,209</u>	<u>\$5,681,215</u>
 Less Amounts to be Distributed to the General Fund		
Fund Balance	\$1,117	\$24
Advances to the Black Lung Trust Fund	7,254	6,749
Cash, Foreign Currency and Other Monetary Assets	53,332	54,386
Gold & Silver Reserves	9	9
Loans & Interest Receivable - Intra-governmental (Entity & Non-Entity)	209,947	196,813
Accounts Receivable - Intra-governmental	666	942
Tax/Trade and Other Non-Entity Receivables	20,908	23,514
Other Assets	<u>51</u>	<u>48</u>
Total - Due To the General Fund	<u>\$293,284</u>	<u>\$282,485</u>
 Due From the General Fund, Net	<u>\$5,527,925</u>	<u>\$5,398,730</u>

The \$14.9 billion Adjustment for Eliminated Investments in FY 2001 (and \$16.0 billion in FY 2000) represent investments held by ESF and other reporting entities that were eliminated against Federal Debt.

On the balance sheet the Department reported \$21,365 million in Tax/Trade, Other Receivables, and Related Interest as of September 30, 2001 (\$23,649 million as of September 30, 2000). However, only \$20,908 million is reported as due to the General Fund (\$23,514 million as of September 30, 2000). The difference is attributable to the inclusion of amounts which will be paid to others outside the Federal government, and miscellaneous entity receivables (see Note 11).

In addition, on the balance sheet the Department reported \$179 billion in intra-governmental non-entity loans and interest receivable as of September 30, 2001 (\$166 billion as of September 30, 2000). However, on the chart above \$210 billion is reflected as due to the General Fund (\$197 billion as of September 30, 2000). The difference is attributed to \$31 billion in intra-Treasury loans and borrowings being eliminated on the balance sheet. (For FY 2000, the amount eliminated was also \$31 billion.) Because this amount was eliminated, the Department is reporting \$31 billion in entity intra-governmental

receivables as a payable to the General Fund. The Department also includes \$1.5 billion in loans due from the public in the above figure (\$1.8 billion as of September 30, 2000). See Note 3.

6. *Cash, Foreign Currency, and Other Monetary Assets*

Entity

Entity cash, foreign currency, and other monetary assets primarily includes foreign currency denominated assets (FCDA), special drawing rights (SDR), and forfeited cash. SDRs and FCDAs are valued as of September 30, 2001 and September 30, 2000, using current exchange rates. The amounts held as of September 30, 2001 and September 30, 2000 were as follows (in millions):

	<u>2001</u>	<u>2000</u>
Cash	\$16	\$24
Foreign Currency		
Japanese Yen	2,267	5,610
European Euro	6,181	5,298
Other	36	28
Other Monetary Assets		
Special Drawing Rights	10,979	10,397
Other	<u>121</u>	<u>117</u>
Entity Total	<u>\$19,600</u>	<u>\$21,474</u>

Other includes U.S. dollars restricted for use by the International Monetary Fund, and are maintained in two accounts at the Federal Reserve Bank of New York.

Certain operations of the Department result in the holding of various FCDAs. The foreign currency holdings are normally invested in interest bearing assets issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less, except for foreign currencies under swap agreements with developing countries, were valued at \$5.9 billion as of September 30, 2001 (\$8.5 billion as of September 30, 2000). Other FCDAs with maturities greater than three months are also held and may at times include foreign currencies acquired under swap agreements with developing countries. As of September 30, 2001, FCDAs with maturities greater than three months were valued at \$2.6 billion (\$2.4 billion as of September 30, 2000).

The SDR is an international reserve asset created by the International Monetary Fund (IMF). It was created as a supplement to existing reserve assets, and on several occasions SDRs have been allocated by the IMF to members participating in the IMF's SDR department. The value as a reserve asset derives, essentially, from the commitments of participants to hold and accept SDRs and to honor various obligations connected with its proper functioning as a reserve asset.

On a daily basis, the IMF calculates the value of the SDR using the market value, in terms of the U.S. dollar, from the amounts of each of four freely usable weighted currencies, as defined by the IMF. These currencies are the U.S. dollar, the European Euro (components consist of the French and German weights), the Japanese yen, and the pound sterling. The Department's SDR holdings and allocations are revalued monthly based on the SDR valuation rate calculated by the IMF.

During fiscal year 2001, the Department purchased, at the prevailing rates, \$491.7 million equivalent of SDRs received from the IMF by the General Fund of the U.S. Government as remuneration (interest) on the U.S. reserve position in the IMF (\$577.6 million equivalent of SDRs during fiscal year 2000), and paid the General Fund \$3.0 million in FY 2001 (and \$5.9 million in FY 2000), in interest on dollars due the General Fund in return for SDRs received as remuneration. As of September 30, 2001, the Department had an outstanding payable of \$109.4 million equivalent of SDRs and \$.7 million in interest to the General Fund. (As of September 30, 2000, the Department had an outstanding payable of \$139.3 million equivalent of SDRs to the General Fund for the August 2000 IMF remuneration).

Pursuant to the IMF Articles of Agreement, SDRs allocated to or otherwise acquired by the United States are resources unless:

- a. canceled by the Board of Governors based on an 85 percent majority decision of the total voting power of the Executive Board of the IMF;
- b. the SDR Department of the IMF is liquidated;
- c. the IMF is liquidated; or
- d. the United States chooses to withdraw from the IMF or terminate its participation in the SDR Department.

Except for the payment of interest and charges on SDR allocations to the United States, the payment of the Department's liability related to the SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. Allocations of SDRs were made on January 1, 1970, 1971, 1972, 1979, 1980 and 1981. Since 1981, the IMF has made no further allocations of SDRs. As of September 30, 2001, the amount of SDR holdings was the equivalent of \$10.9 billion and the amount of SDR allocations was the equivalent of \$6.3 billion. (As of September 30, 2000, the amount of SDR holdings was the equivalent of \$10.4 billion and the amount of SDR allocation was the equivalent of \$6.4 billion.)

Non-Entity

Non-entity cash, foreign currency, and other monetary assets include the Operating Cash of the Federal Government, managed by the Department. Also included is foreign currency maintained by various U.S. and military disbursing offices. It also includes seized monetary instruments, undistributed cash, and offers in compromise which are maintained as the result of the Department's law enforcement and tax collecting responsibilities. The amounts held as of September 30, 2001 and September 30, 2000 were as follows (in millions):

	<u>2001</u>	<u>2000</u>
Operating Cash of the Federal Government	<u>\$53,323</u>	<u>\$54,293</u>
Undistributed Cash/Offer in Compromise	<u>26</u>	<u>249</u>
Seized Monetary Instruments	<u>7</u>	<u>7</u>
Foreign Currency	<u>54</u>	<u>64</u>
Other	<u>255</u>	<u>79</u>
Non-Entity Total	<u>\$53,665</u>	<u>\$54,692</u>

The Operating Cash of the Federal Government represents balances from tax collections, Customs duties, other revenues, federal debt receipts, time deposits, and other various receipts net of checks outstanding,

which are held in the Federal Reserve Banks, foreign and domestic financial institutions, and in U.S. Treasury tax and loan accounts.

The Operating Cash of the Federal Government includes compensating balances, totaling \$13 billion as of September 30, 2001 (and \$6 billion as of September 30, 2000). These balances are deposited interest free to compensate commercial banks for services provided on behalf of the Federal Government (such as handling over the counter deposits for federal program agencies, providing lockbox services for agency collection programs, etc.). Operating Cash of the Federal Government is either insured (for balances less than \$100,000) by the Federal Deposit Insurance Corporation or collateralized by securities pledged by the depository institutions and held by the Federal Reserve Banks.

Seized Monetary Instruments and Seized Property

Seized property as defined by SFFAS No. 3, Accounting for Inventory and Related Property, includes monetary instruments, real property, and tangible personal property of others in the actual constructive possession of the custodial agency. The Department seizes monetary instruments and property in terms of the definition provided by SFFAS No. 3 as the result of tax, forfeiture, criminal, and other enforcement actions. Seized property (including currency and monetary instruments) is recorded at its market value at the time of the seizure. The value is determined by the seizing organization and is usually based on market analysis such as third party appraisals, standard property value publications or bank statements.

The Department, through the Treasury Forfeiture Fund Program, seizes property such as real property, and tangible personal property of others that is in actual, constructive, or custodial possession of the Department, resulting from the enforcement of Federal laws.

The following tables provide detailed information about the Department's seized monetary instruments and property in relation to the Department's Forfeiture activities. Seized Currency on the Analysis of Change in Seized Assets includes \$65 million reported on the Balance Sheet as of September 30, 2001 (and \$79 million as of September 30, 2000). It also includes investments of seized currency of \$213 million held by the Treasury Forfeiture Fund in Treasury securities (\$217 million as of September 30, 2000). These investments are eliminated in the Balance Sheet and included in Due from the General Fund (see Note 5).

Analysis of Change in Amount of Seized Assets (In thousands)

Type of Asset *	Balance 10/01/2000	Seizures	Remissions a/	Forfeitures	Adjustments b/	Value Change c/	Balance 9/30/2001
Currency	\$296,392	\$185,413	(\$56,213)	(\$168,273)	\$6,291	(\$383)	\$263,227
Other Monetary Instruments	7,237	12,389	(704)	(440)	(2,773)	(10)	15,699
Real Property	59,349	57,970	(5,576)	(15,566)	(4,875)	(1,982)	89,320
General Property	103,882	165,529	(137,366)	(16,958)	(17,070)	(263)	97,754
Vessels	4,084	8,596	(5,747)	(2,414)	(1,982)	(196)	2,341
Aircraft	2,674	262	(535)	(800)	0	(325)	1,276
Vehicles	26,370	55,126	(33,348)	(18,684)	(1,328)	1,656	29,792
Total Seized Assets	<u>\$499,988</u>	<u>\$485,285</u>	<u>(\$239,489)</u>	<u>(\$223,135)</u>	<u>(\$21,737)</u>	<u>(\$1,503)</u>	<u>\$499,409</u>

Type of Asset *	Balance 10/01/1999	Seizures	Remissions a/	Forfeitures	Adjustments b/	Value Change c/	Balance 9/30/2000
Currency	\$300,194	\$202,852	(\$82,568)	(\$136,213)	\$10,906	\$1,221	\$296,392
Other Monetary Instruments	11,947	4,854	(371)	(1,155)	(7,686)	(352)	7,237
Real Property	72,882	28,331	(5,234)	(40,248)	6,487	(2,869)	59,349
General Property	169,447	163,695	(178,804)	(26,598)	(6,960)	(16,898)	103,882
Vessels	2,051	12,904	(7,455)	(3,390)	(11)	(15)	4,084
Aircraft	9,247	14,352	(16,537)	(3,133)	(1,255)	0	2,674
Vehicles	18,837	61,647	(35,805)	(16,522)	(244)	(1,543)	26,370
Total Seized Assets	<u>\$584,605</u>	<u>\$488,635</u>	<u>(\$326,774)</u>	<u>(\$227,259)</u>	<u>\$1,237</u>	<u>(\$20,456)</u>	<u>\$499,988</u>

Analysis of Change in Number of Seized Assets

Type of Asset *	Balance 10/01/2000	Seizures	Remissions a/	Forfeitures	Adjustments b/	Balance 9/30/2001
Currency	(d)					(d)
Other Monetary Instruments	(d)					(d)
Real Property	306	251	(44)	(85)	(50)	378
General Property	9,195	18,598	(7,061)	(11,143)	(262)	9,327
Vessels	67	109	(37)	(74)	(11)	54
Aircraft	9	5	(2)	(4)	(1)	7
Vehicles	<u>2,693</u>	<u>9,856</u>	<u>(3,417)</u>	<u>(6,366)</u>	<u>(616)</u>	<u>2,150</u>
Total Seized Assets	<u>12,270</u>	<u>28,819</u>	<u>(10,561)</u>	<u>(17,672)</u>	<u>(940)</u>	<u>11,916</u>

Type of Asset *	Balance 10/01/1999	Seizures	Remissions a/	Forfeitures	Adjustments b/	Balance 9/30/2000
Currency	(d)					(d)
Other Monetary Instruments	(d)					(d)
Real Property	266	148	(59)	(87)	38	306
General Property	11,954	21,086	(8,601)	(14,194)	(1,050)	9,195
Vessels	85	129	(37)	(102)	(8)	67
Aircraft	15	20	(20)	(4)	(2)	9
Vehicles	<u>2,220</u>	<u>9,488</u>	<u>(3,448)</u>	<u>(5,446)</u>	<u>(121)</u>	<u>2,693</u>
Total Seized Assets	<u>14,540</u>	<u>30,871</u>	<u>(12,165)</u>	<u>(19,833)</u>	<u>(1,143)</u>	<u>12,270</u>

a/ Remissions include seized items which were classified as prohibited, but subsequently returned to the owner once a legal right to possess the item was established. Examples include firearms or controlled substances obtained by prescription.

b/ Adjustments - include reclassification of property categories and minor adjustments to beginning balances. Additionally, adjustments include property turned over to state and local or other Federal Law enforcement agencies for prosecution or destruction prior to forfeiture.

c/ Value Change - is an adjustment to reflect the net value change of a seized asset from the initial appraisal to the latest appraisal. This could result in either a positive or negative change.

d/ Inconsistent methods have been used to record the number of seizures of currency and other monetary instruments. Therefore, numbers provided would not be compiled from a uniform base, and accordingly, are not provided.

* Prohibited Property is analyzed separately in the following chart.

Prohibited (non-valued) Seized Property

Prohibited items are items with no legal market value in the United States and which will not be sold for export. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited property are retained by the Department until final disposition.

Analysis of Change in Prohibited (Non-Valued) Seized Property

Category	Balance October 1, 2000			New Seizures			Remissions		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	5,717	12,597	---	558,612	1,231,516	---	0	0	---
Cocaine	2,853	6,283	---	39,529	87,146	---	0	0	---
Heroin	52	115	---	1,839	4,054	---	0	0	---
Firearms	---	---	*30,919	---	---	30,690	---	---	(12,091)
Pornography	---	---	22,191	---	---	3,421	---	---	(811)
Other	---	---	*3,024	---	---	1,158	---	---	0
Total	<u>8,622</u>	<u>18,995</u>	<u>56,134</u>	<u>599,980</u>	<u>1,322,716</u>	<u>35,269</u>	<u>0</u>	<u>0</u>	<u>(12,902)</u>

Category	New Forfeitures			Adjustments			Balance September 30, 2001		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	(558,781)	(1,231,889)	---	(3,997)	(8,812)	---	1,551	3,412	---
Cocaine	(39,510)	(87,104)	---	(2,665)	(5,875)	---	207	450	---
Heroin	(1,841)	(4,059)	---	(22)	(49)	---	28	61	---
Firearms	---	---	(11,377)	---	---	3,050	---	---	41,191
Pornography	---	---	(6,442)	---	---	(3,562)	---	---	14,797
Other	---	---	0	---	---	(1,111)	---	---	3,071
Total	<u>(600,132)</u>	<u>(1,323,052)</u>	<u>(17,819)</u>	<u>(6,684)</u>	<u>(14,736)</u>	<u>(1,623)</u>	<u>1,786</u>	<u>3,923</u>	<u>59,059</u>

Note: This schedule is presented for material prohibited (non-valued) property only.
The ending balance for firearms includes only those seized items that can actually be used as firearms.

* FY 2000 Accountability Report did not include ATF and Secret Service data for these line items.

Analysis of Change in Prohibited (Non-Valued) Seized Property

Category	Balance October 1, 1999			New Seizures			Remissions		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	1,330	2,925	---	445,216	981,523	---	0	0	---
Cocaine	1,351	2,972	---	44,253	97,560	---	0	0	---
Heroin	14	31	---	1,393	3,071	---	0	0	---
Firearms	---	---	4,729	---	---	3,175	---	---	(3,008)
Pornography	---	---	21,272	---	---	5,259	---	---	(873)
Other	---	---	0	---	---	0	---	---	0
Total	<u>2,695</u>	<u>5,928</u>	<u>26,001</u>	<u>490,862</u>	<u>1,082,154</u>	<u>8,434</u>	<u>0</u>	<u>0</u>	<u>(3,881)</u>

Category	New Forfeitures			Adjustments			Balance September 30, 2000		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	(441,199)	(972,667)	---	370	816	---	5,717	12,597	---
Cocaine	(42,410)	(93,497)	---	(341)	(752)	---	2,853	6,283	---
Heroin	(1,343)	(2,961)	---	(12)	(26)	---	52	115	---
Firearms	---	---	(4,006)	---	---	3	---	---	893
Pornography	---	---	(6,598)	---	---	3,131	---	---	22,191
Other	---	---	0	---	---	0	---	---	0
Total	<u>(484,952)</u>	<u>(1,069,125)</u>	<u>(10,604)</u>	<u>17</u>	<u>38</u>	<u>3,134</u>	<u>8,622</u>	<u>18,995</u>	<u>23,084</u>

Note: This schedule is presented for material prohibited (non-valued) property only.
The ending balance for firearms includes only those seized items that can actually be used as firearms.

7. *Gold & Silver Reserves, and Gold Certificates Issued to Federal Reserve Banks*

The Department is responsible for safeguarding most of the Federal Government's gold and silver reserves in accordance with 31 USC 5117. The Consolidated Balance Sheet also reflects gold being held in the Federal Reserve Bank of New York.

Gold Reserves being held by the Department are offset by a liability for gold certificates issued by the Secretary of the Treasury to the Federal Reserve as provided under 31 USC 5117. Since 1934, Gold certificates have been issued in non-definitive or book-entry form to the Federal Reserve. The Department's liability incurred by issuing the Gold Certificates is limited to the gold being held by the Department at the legal standard value established by law. Upon issuance of gold certificates to the Federal Reserve, the proceeds from the certificates are deposited into the operating cash of the Federal Government. Therefore, all of the Department's certificates issued are payable to the Federal Reserve. Absent any historical cost records to determine the acquisition cost of the gold and silver over several decades, the statutory rates of \$42.2222 per fine troy ounce (FTO) for gold and \$1.2929292 per FTO for silver are used to value the entire custodial reserves, which are in the custody of the U.S. Mint and the Federal Reserve Bank of New York. As of September 30, 2001 and September 30, 2000, the Gold and Silver Reserves consisted of the following:

<u>As of September 30, 2001:</u>			9/30/2001 Statutory Value (Millions)	Market Value per FTO	9/30/2001 Market Value (Millions)
	FTO's	Statutory Rate			
Gold	245,262,897	\$42.2222	\$10,356	\$293.10	\$71,887
Gold Held by Federal Reserve Bank & in Transit	13,450,413	\$42.2222	568	\$293.10	3,942
Subtotal - Gold	258,713,310		\$10,924		\$75,829
Silver	7,075,171	\$1.2929	9	\$4.58	32
Total Gold and Silver Reserves			<u>\$10,933</u>		<u>\$75,861</u>

<u>As of September 30, 2000:</u>			9/30/2000 Statutory Value (Millions)	Market Value per FTO	9/30/2000 Market Value (Millions)
	FTO's	Statutory Rate			
Gold	245,262,897	\$42.2222	\$10,356	\$273.65	\$67,116
Gold Held by Federal Reserve Bank & in Transit	13,450,413	\$42.2222	568	\$273.65	3,681
Subtotal - Gold	258,713,310		\$10,924		\$70,797
Silver	7,075,171	\$1.2929	9	\$4.89	35
Total Gold and Silver Reserves			<u>\$10,933</u>		<u>\$70,832</u>

8. Investments and Related Interest

Entity

Most of the Department investments are held by the Exchange Stabilization Fund. Securities that the Department has both the positive intent and ability to hold to maturity are classified as investment securities held to maturity and are carried at historical cost, adjusted for amortization of premiums and accretion of discounts.

As of September 30, 2001 and September 30, 2000, entity investments consisted of the following (in millions):

<u>As of 9/30/2001:</u>		Amortized	Less:			9/30/2001
Type of Investment	Cost	(Premium)/ Discount	Amounts for Elimination	Net Investment	Interest Receivable	Investment Balance
Japanese T- Bills	\$2,768	\$0	\$0	\$2,768	\$0	\$2,768
German Bonds	936	33	0	969	29	998
German BUBills	226	(2)	0	224	0	224
Japanese Financing Bills	<u>2,912</u>	<u>0</u>	<u>0</u>	<u>2,912</u>	<u>0</u>	<u>2,912</u>
Total Non-Federal	<u>\$6,842</u>	<u>\$31</u>	<u>\$0</u>	<u>\$6,873</u>	<u>\$29</u>	<u>\$6,902</u>

<u>As of 9/30/2000:</u>		Amortized	Less:			9/30/2000
Type of Investment	Cost	(Premium)/ Discount	Amounts for Elimination	Net Investment	Interest Receivable	Investment Balance
Japanese T- Bills	\$3,000	\$0	\$0	\$3,000	\$1	\$3,001
German Bonds	1,016	0	0	1,016	32	1,048
German BUBills	215	0	0	215	3	218
Japanese Financing Bills	<u>461</u>	<u>0</u>	<u>0</u>	<u>461</u>	<u>0</u>	<u>461</u>
Total Non-Federal	<u>\$4,692</u>	<u>\$0</u>	<u>\$0</u>	<u>\$4,692</u>	<u>\$36</u>	<u>\$4,728</u>

Market value of these investments as of September 30, 2001 and September 30, 2000 were as follows (in millions):

	<u>2001</u>	<u>2000</u>
Japanese T- Bills	\$2,768	\$3,000
German Bonds	1,006	1,015
German BUBills	224	219
Japanese Financing Bills	<u>2,912</u>	<u>435</u>
Total	<u>\$6,910</u>	<u>\$4,669</u>

9. Reserve Position in the International Monetary Fund

The IMF was established in 1946 with the mission of promoting international monetary cooperation and stable payments system to facilitate growth in the world economy. Since its establishment, the IMF's purposes have remained unchanged but its activities and procedures – focused on surveillance of member economies, financial assistance, and technical assistance – have evolved to meet the needs of its member countries in a changing world economy.

The United States participates in the IMF, as do other members, through a quota subscription. Each country's quota is based on a set of criteria that relate to various dimensions of its relative size in the world economy. Quotas are generally reviewed every five years, with general increases occurring when necessary for the IMF to have additional liquidity available to serve its role in the international monetary system. Increases are generally shared proportionally among members, although increases are possible on any basis approved by the requisite majority of members (for instance to adjust one country's quota to reflect a change in sovereignty).

Quota subscriptions are paid partly through the transfer of reserve assets, such as foreign currencies or Special Drawing Rights (SDRs), and partly by making domestic currency available as needed through a non-interest-bearing letter of credit made available to the IMF. (The SDR is an international reserve currency asset created by the IMF; its value is determined as a weighted average of a basket of currencies – currently the dollar, euro, pound sterling and yen.) Approximately one quarter of one percent of the U.S. quota is maintained in cash balances, subject to minimum and maximum amounts, in an operating account used in conjunction with the IMF's transactions with other member countries, and a small amount is maintained in a separate account for the IMF's administrative expenses. The bulk of the IMF's dollar holdings are in a letter of credit, as described above, which is issued by Treasury and maintained by the Federal Reserve Bank of New York.

The IMF draws dollars from the letter of credit as necessary to help finance its operations and expenses. When resources are transferred by the United States to the IMF in the form of reserve assets or dollars obtained through encashment of the letter of credit, the United States simultaneously receives an equal, offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF. The reserve position, including any increases resulting from encashment of the letter of credit, is interest-bearing and liquid – and can be drawn at any time in case of a balance of payments need. The U.S. reserve position is denominated in SDRs, as is the U.S. quota.

The budgetary treatment of the U.S. quota in the IMF differs from normal budget accounting. While resources for transactions between the IMF and the United States are appropriated, they do not result in net budgetary outlays. This is because quota transactions constitute an exchange of monetary assets in which the United States receives an equal offsetting claim on the IMF in the form of an increase in the U.S. reserve position in the IMF, which is interest bearing and can be drawn at any time in case of a balance of payments need – and in practice has been drawn under such circumstances. Similarly, when the IMF transfers dollars to the United States, no net budget receipt results because the U.S. reserve position declines simultaneously by an equal amount.

Fluctuations in the value of the dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. reserve position in the IMF. When the dollar appreciates against the SDR, a valuation loss is experienced and recorded as an increase to the Appropriations Used line item on the Statement of Changes in Net Position, because the dollar value of U.S. holdings has decreased. When the dollar depreciates against the SDR, a valuation gain is experienced and recorded as a reduction to Appropriations Used, because the dollar value of U.S. holdings has increased. As a result of the appreciation of the dollar against the SDR between the end of fiscal year 2000 and the end of fiscal year

2001, the U.S. experienced a valuation loss on the reserve position of approximately \$47 million (a similar loss between the end of fiscal year 1999 and the end of fiscal year 2000 was \$1.1 billion). There are no transactions associated with this exchange-rate driven change in the dollar value of the reserve position, and there are no net outlays involved prospectively, although outlays are recorded retrospectively to reflect the valuation change.

As of September 30, 2001, the U.S. quota in the IMF was SDR 37.1 billion, valued at approximately \$47.9 billion. (The quota as of September 30, 2000 was SDR 37.1 billion, valued at \$48.2 billion.) The quota consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Letter of Credit /1.	\$29,358	\$34,408
U.S. Dollars Held in Cash by the IMF /1.	121	117
Reserve Position /2.	<u>18,407</u>	<u>13,690</u>
U.S. Quota in the IMF	<u>\$47,886</u>	<u>\$48,215</u>

/1. This amount is included in entity appropriated funds under Note 2, Fund Balance with Treasury, and unexpended appropriations - obligations/undelivered orders.

/2. This amount is included in cumulative results of operations.

Because the unused domestic currency portion of the U.S. quota – largely held in the letter of credit – is denominated in SDRs, but payable in U.S. dollars, periodic adjustments are made to maintain the SDR value of these holdings. These adjustments are settled after the close of the IMF financial year on April 30, although accrued maintenance of value amounts are calculated daily. Adjustments to the letter of credit do not involve a flow of funds. At April 30, 2001, the appreciation of the dollar against the SDR since April 30, 2000 called for a downward adjustment of the letter of credit by \$1.4 billion. (A similar downward adjustment needed at April 30, 2000 for the appreciation of the dollar against the SDR since April 30, 1999 was \$860 million.) The dollar balance shown above for the letter of credit includes an accrued maintenance of value amount.

The United States earns interest on its reserve position in the IMF, including the increases in the reserve position that result when the letter of credit is drawn down by the IMF, except for the portion of the reserve position originally paid in gold. This interest is called “remuneration.” Remuneration is paid quarterly and is calculated on the basis of the SDR interest rate. (The SDR interest rate is a market-based interest rate determined on the basis of a weighted average of interest rates on short-term instruments in the markets of the currencies included in the SDR valuation basket). Payment of a portion of this remuneration is deferred as part of a mechanism for creditors and debtors to share any financial consequences of overdue obligations to the IMF, such as unpaid overdue interest, and to similarly share the burden of establishing any contingency accounts deemed necessary to reflect the possibility of non-repayment of relevant principal amounts. As overdue interest is paid, previously deferred remuneration corresponding to the creditors’ share of the burden of earlier nonpayment is included in the next payment of remuneration. The deferred remuneration corresponding to the creditors’ share of establishing the contingency accounts is usually paid when there are no longer any relevant overdue obligations or when the IMF Executive Board determines. The total burden-sharing reduction from the IMF remuneration received during FY 2001 was \$20.9 million. (The reduction for FY 2000 was \$26.8 million.)

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources under certain circumstances. The United States currently participates in two such arrangements – the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). These supplemental arrangements make possible temporary support for IMF lending operations in times of crisis

when IMF liquidity is low, such as in 1998. To vote in favor of activating these loans, the Secretary of the Treasury must first certify to Congress that supplementary resources are needed to forestall or cope with an impairment of the international monetary system and that the IMF has fully explored other means of funding. There were no U.S. loans under these arrangements in FY 2001, and all U.S. loans to the IMF made under these borrowing arrangements had been repaid in full prior to FY 2000. The dollar equivalent of SDR 6.7 billion has been appropriated to finance U.S. participation in the GAB and NAB; as of September 30, 2001 and September 30, 2000, this amounted to \$8.7 billion in standing appropriations available for lending through the GAB or NAB as needed. As is the case for the U.S. quota in the IMF, budgetary treatment of U.S. participation in the GAB and NAB does not result in net budgetary outlays, since transactions under the GAB or NAB results in a simultaneous adjustment to the U.S. reserve position in the IMF.

Because of the unique budgetary treatment of U.S. participation in the IMF and GAB/NAB, the Department does not recognize the U.S. quota in the IMF and U.S. participation in the GAB and NAB as budgetary resources in the Combined Statement of Budgetary Resources. FY 2001 “actual” amounts related to the quota and borrowing arrangements to be reported in the FY 2003 Budget of the United States include:

*Unobligated balance available, end of year -- \$18.4 billion for the reserve position (\$15.1 billion at the end of FY 2000) and \$8.7 billion for the GAB and NAB (the same balance at the end of FY 2000).

*Obligated balance, end of year -- \$29.5 billion representing the quota amount available to the IMF in the Letter of Credit and U.S. dollars held in cash by the IMF (\$35.2 billion at the end of FY 2000).

The IMF also maintains a facility for lending on concessional terms to low-income developing country members in support of economic reform programs. Formerly called the Enhanced Structural Adjustment Facility (ESAF), this facility is now known as the Poverty Reduction and Growth Facility (PRGF). Lending in support of PRGF arrangements and subsidization of interest due on such lending are financed through loans and subsidy contributions from member countries, rather than through the IMF’s quota resources. When the original ESAF program was established in 1987, Congress appropriated \$150 million for a U.S. contribution to the interest subsidy account. Congress provided another \$25 million in FY 1995 in partial payment on a U.S. pledge of \$100 million for the interest subsidy account of the extended and enhanced ESAF, now PRGF. At the start of FY 2000, \$26 million remained unpaid but available to the IMF for this purpose. In FY 2000, the Department paid \$17 million, leaving \$9 million unpaid at the start of FY 2001. In FY 2001 the Department paid the entire \$9 million of these appropriated resources. This contribution represents an expense to the Department.

10. Investments in International Financial Institutions

The Department participates in Multilateral Development Banks (MDBs) to support poverty reduction, private sector development, transition to market economies and sustainable economic growth and development, thereby advancing the United States’ economic, political, and commercial interest abroad. The MDBs consist of the World Bank Group, five regional development banks and the Global Environment Facility.

Most of the contributions to financial institutions involve investments in MDBs. The Department has the lead in negotiating the establishment and replenishment of resources for these financial institutions through multilateral agreements. These agreements specify the financial elements, underlying provision of resources, and longer-term policy framework within which these resources will be used. Congress appropriates funds for capital subscriptions and contributions to the multilateral development accounts in

foreign operations appropriation acts. These appropriations were \$1.1 billion in FY 2001 and FY 2000. Appropriations can be used for three types of transactions: paid-in capital, callable capital, and replenishments (concessional loans/grants). Paid-in capital is the capital stock the U.S. buys with U.S. currency or a convertible currency. No dividends are received; however, on occasion, there have been net income transfers to the concessional loan programs. Callable capital is issued not for money, but for the good faith commitment of the member to pay in cash upon request by the bank. Callable capital subscriptions are subject to call, under limited circumstances, only when required to meet the obligations of the respective MDBs created by borrowing. To date, there has not been, nor is there anticipated to be, a call on capital subscriptions. For this reason, beginning in fiscal year 1981, callable capital was no longer appropriated. Congress provided for callable capital through the use of program limitations in appropriation legislation instead of appropriations. Amounts previously appropriated for callable capital totaled \$6.5 billion and are included in the Appropriated Funds line item balance as part of Entity Fund Balance with Treasury. Replenishments are funds provided to the banks for their concessional lending operations. These contributions are not expected to be paid back to the U.S. Rather, repayments of the concessional loans go back to the concessional window for further lending, thus reducing the burden on the member countries for future replenishments. FY 2001 contributions to the MDBs were \$1.8 billion. (FY 2000 contributions were \$1.3 billion.)

U.S. payments to MDBs are made by cash transfers, non-interest-bearing letters of credit, or a combination of the two. The Department authorizes both the cash payments and letters of credit issued to the institutions. The Federal Reserve Bank of New York administers the letters of credit. The Department currently values its investments in these financial institutions for paid-in capital at cost. Contributions to these international financial institutions for paid-in capital are reported as investments.

As of September 30, 2001 and September 30, 2000, investments in international financial institutions consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Inter-American Development Bank	\$1,385	\$1,355
Asian Development Bank	420	403
International Bank for Reconstruction & Development	1,985	1,985
African Development Bank	145	139
Multilateral Investment Guarantee Agency	25	23
European Bank for Reconstruction & Development	450	419
North American Development Bank	174	174
International Buffer Stocks	0	70
International Finance Corporation	570	570
Total	<u>\$5,154</u>	<u>\$5,138</u>

11. *Accounts Receivable*

A. Tax/Trade and Other Receivables, and Related Interest, Net

Non-Entity

Tax/trade and other receivables include receivables from tax assessments, custom duties, excise taxes, fees, penalties, and interest assessed and accrued, reduced by an estimate for uncollectible amounts. Also included are earnings due on monies deposited in Federal Reserve Banks. As of September 30, 2001 and September 30, 2000, tax/trade and other receivables consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Tax/Trade Receivables, Gross	\$80,390	\$82,836
Receivable, Deposit of Earnings, Federal Reserve	405	552
Other Receivables & Interest	<u>88</u>	<u>73</u>
Total Tax/Trade and Other Non-Entity Receivables - Gross	\$80,883	\$83,461
Less Allowance	<u>(59,630)</u>	<u>(59,941)</u>
Total Tax/Trade and Other Receivables, Net *	<u>\$21,253</u>	<u>\$23,520</u>

* See Entity section below and Note 14.

An allowance for doubtful accounts was established for the difference between the gross receivables and the portion deemed collectible. The portion of tax/trade receivables estimated to be collectible and the allowance for doubtful accounts are based on projections of collectibility from a statistical sample of taxes receivable. The Department does not establish an allowance for the receivable on deposits of Federal Reserve earnings.

IRS Federal taxes receivable constitute the largest portion of the receivables. IRS Federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and the Service, or the courts.

Entity

Tax/trade and other receivables and related interest displayed on the balance sheet also includes miscellaneous entity receivables and related interest (\$112 million for FY 2001 and \$129 million for FY 2000).

B. Intra-governmental Accounts Receivable and Related Interest

Intra-governmental accounts receivable and interest mainly represents non-entity payments made by the Department under the Contract Disputes Act (\$663 million of the \$745 million and \$916 million of the \$1,007 million displayed for 2001 and 2000, respectively). Unlike Judgment Fund payments, other Federal agencies are required to reimburse the Department for payments made to contractors, on their behalf, under the Act. These amounts remain a receivable on the books of the Financial Management Service and a payable on the other Federal agencies' books until reimbursement is made. The remaining amount displayed as intra-governmental accounts receivable and interest is related to miscellaneous intra-governmental transactions.

12. *Inventory and Related Property, Net*

Inventory and related property includes inventory, operating materials and supplies, and forfeited property held by the Department. As of September 30, 2001 and September 30, 2000, inventory and related property consisted of the following (in millions):

Inventory and Related Property:	<u>2001</u>	<u>2000</u>
Inventory, Net	\$525	\$498
Materials and Supplies	92	87
Forfeited Property	<u>26</u>	<u>28</u>
Total	<u>\$643</u>	<u>\$613</u>

Inventory, Net

The Department's manufacturing entities, the Bureau of Engraving and Printing (BEP) and the United States Mint, maintain inventory accounts or balances (e.g., metals, paper, etc.) for use in manufacturing currency and coins. The cost of these items is included in inventory costs, and is recorded as cost of goods sold upon delivery to customers. The Financial Management Service also holds inventory for check processing activities. The inventory as of September 30, 2001 and September 30, 2000 were as follows (in millions):

Inventory Category:	Acquisition Cost	Allowance for Losses	<u>2001</u>	<u>2000</u>
Inventory Held for Current Sale	\$539	(\$14)	\$525	\$499
Excess, Obsolete, and Unserviceable	<u>(0)</u>	<u>0</u>	<u>(0)</u>	<u>(1)</u>
Total	<u>\$539</u>	<u>(\$14)</u>	<u>\$525</u>	<u>\$498</u>

Composition of Inventory:	<u>2001</u>	<u>2000</u>
Raw Materials & Supplies	\$213	\$230
Work in Process	210	196
Finished Goods	<u>102</u>	<u>72</u>
Total	<u>\$525</u>	<u>\$498</u>

Operating Materials and Supplies, Net

The Department's operating materials and supplies primarily consist of aircraft and marine parts used to repair and maintain aircraft and vessels for enforcement related activities. Operating materials and supplies are also maintained for the production of bureau products. As of September 30, 2001 and September 30, 2000, operating materials and supplies consisted of the following (in millions):

Composition of Materials:	<u>2001</u>	<u>2000</u>
Held for Use	\$99	\$93
Excess, Obsolete, and Unserviceable	<u>(7)</u>	<u>(6)</u>
Total	<u>\$92</u>	<u>\$87</u>

Forfeited Property, Net

As a consequence of enforcing various laws, certain property is seized by the Department's enforcement bureaus. The seized assets may be subsequently forfeited to the government through abandonment or administrative or judicial procedures. Information concerning seized assets activity can be found under Note 6, Cash, Foreign Currency, and Other Monetary Assets. As of September 30, 2001 and September 30, 2000, forfeited property held by the Department were as follows (in millions):

	<u>2001</u>	<u>2000</u>
Property Held for Sale	<u>\$27.6</u>	<u>\$30.9</u>
Property to be Shared with Federal, State or Local, or Foreign Governments	<u>0.0</u>	<u>0.3</u>
Total Forfeited Property, Gross	<u>\$27.6</u>	<u>\$31.2</u>
Less: Allowance for Mortgages and Claims on Property Held for Sale	<u>1.7</u>	<u>3.1</u>
Total Forfeited Property, Net	<u>\$25.9</u>	<u>\$28.1</u>

Forfeited property is recorded at estimated fair value at the time of seizure. However, based on historical sales experiences for the year, properties are adjusted to reflect the current fair market value at the end of the fiscal year. Property forfeited in satisfaction of a taxpayers liability is recorded when title to the property passes to the Federal Government and a corresponding credit is made to the related accounts receivable. Direct and indirect holding costs are not capitalized for individual forfeited assets.

Mortgages and claims on forfeited assets are recognized as a valuation allowance and a reduction of deferred revenue from forfeited assets when the asset is forfeited. The allowance includes mortgages and claims on forfeited property held for sale and a minimal amount of claims on forfeited property previously sold. Mortgages and claims expenses are recognized when the related asset is sold and are reflected as a reduction of sales of forfeited property.

Also included in forfeited property are prohibited items. Prohibited items are items with no legal market value in the United States and which will not be sold for export. They include explosives and pornography. Forfeited firearms that will not be sold due to Department policy are also considered to be prohibited items. Illegal drugs and other forfeited property are retained by the Department until final disposition.

Analysis of Change in Forfeited Property, from October 1, 2000 to September 30, 2001 (in thousands):

	10/1/2000 Financial Statement Balance		Adjustment		10/1/2000 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$16,639	---	\$0	---	\$16,639	---	\$168,273	---	(\$178,916)	---	(\$2,628)	---
Other Monetary Instruments	366	0	172	0	538	0	440	0	(324)	0	0	0
Real Property	21,464	120	(402)	0	21,062	120	15,566	85	(16,270)	(92)	(1,118)	(13)
General Property	3,828	* 4,033	9,799	0	13,627	4,033	16,958	11,143	(19,506)	(2,504)	(2,543)	(1,206)
Vessels	959	43	327	0	1,286	43	2,414	74	(2,644)	(71)	(455)	(10)
Aircraft	65	2	(7)	0	58	2	800	4	(623)	(4)	0	0
Vehicles	4,501	1,582	1,877	0	6,378	1,582	18,684	6,366	(14,476)	(6,064)	(3,213)	(162)
Total Forfeited Property (Gross)	\$31,183	5,780	\$11,766	0	\$42,949	5,780	\$54,862	17,672	(\$53,843)	(8,735)	(\$7,329)	(1,391)
Grand Total	\$47,822	5,780	\$11,766	0	\$59,588	5,780	\$223,135	17,672	(\$232,759)	(8,735)	(\$9,957)	(1,391)

	Victim Restitution		Destroyed		Other Adjustments		Value Change		Fair Value Adjustment		9/30/2001 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$0	---	\$0	---	\$5,209	---	\$57	---	\$0	---	\$8,634	---
Other Monetary Instruments	0	0	0	0	(56)	0	0	0	(162)	0	436	0
Real Property	0	0	0	0	(618)	5	(72)	0	1,256	0	19,806	105
General Property	0	0	(283)	(7,998)	34	549	(570)	0	(5,417)	0	2,300	4,017
Vessels	0	0	0	(8)	1	(2)	(3)	0	(261)	0	338	26
Aircraft	0	0	0	0	0	0	0	0	(5)	0	230	2
Vehicles	---	0	(2)	(72)	(610)	66	(21)	0	(2,271)	0	4,469	1,716
Total Forfeited Property (Gross)	\$0	0	(\$285)	(8,078)	(\$1,249)	618	(\$666)	0	(\$6,860)	0	\$27,579	5,866
Less Allowance											(1,711)	
Total Forfeited Property (Net)											\$25,868	
Grand Total	\$0	0	(\$285)	(8,078)	\$3,960	618	(\$609)	0	(\$6,860)	0	\$34,502	5,866

Note: Value change is an adjustment to reflect the net value of a forfeited asset from the initial appraisal to the latest appraisal. This could result in a positive or negative change.

The fair value adjustments are necessary to convert forfeited property from unadjusted carrying value (market value at the time of seizure) to an estimate of the fair value at the time of forfeiture, which is the amount recorded in the financial statements. Other adjustments primarily represent property forfeited in prior fiscal years but reversed to seized status during the current fiscal year. Due to the variety of specific types of assets within each asset category, the number of items presented in the 10/1/2000 balance represent quantities calculated using many different units of measure. Therefore, the usefulness of this quantity disclosure may be limited. In FY 2001, in order to present a more meaningful quantity, the number presented for each class of property represents the number of seizure line items recorded regardless of the unit of measure of quantity. Other adjustments above primarily represent minor reclassifications or adjustments to beginning balances.

* FY 2000 Accountability Report misstated the ending quantity for the General Property category. (ATF's data was double-counted.)

Analysis of Change in Forfeited Property, from October 1, 1999 to September 30, 2000 (in thousands):

	10/1/1999 Financial Statement Balance		Adjustment		10/1/1999 Carrying Value		Forfeitures		Deposits/Sales		Disposals/Transfers	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$13,266	---	\$0	---	\$13,266	---	\$136,213	---	(\$134,858)	---	(\$4,637)	---
Other Monetary Instruments	1,287	0	161	0	1,448	0	1,155	0	(1,080)	0	0	0
Real Property	19,312	167	2,822	0	22,134	167	40,248	87	(41,617)	(131)	(607)	(5)
General Property	2,811	6,957	10,023	197	12,834	7,154	26,598	21,380	(20,242)	(3,015)	(5,138)	(1,527)
Vessels	1,129	52	257	0	1,386	52	3,390	102	(2,793)	(84)	(538)	(18)
Aircraft	537	4	(70)	0	467	4	3,133	4	(217)	(3)	(3,325)	(3)
Vehicles	4,595	1,903	1,400	0	5,995	1,903	16,522	5,446	(13,001)	(5,672)	(3,167)	(188)
Prohibited Items	---	<u>20,166</u>	---	<u>0</u>	---	<u>20,166</u>	---	<u>69,383</u>	---	<u>0</u>	---	<u>(2,061)</u>
Total Forfeited Property (Gross)	<u>\$29,671</u>	<u>29,249</u>	<u>\$14,593</u>	<u>197</u>	<u>\$44,264</u>	<u>29,446</u>	<u>\$91,046</u>	<u>96,402</u>	<u>(\$78,950)</u>	<u>(8,905)</u>	<u>(\$12,775)</u>	<u>(3,802)</u>
Grand Total	<u>\$42,937</u>	<u>29,249</u>	<u>\$14,593</u>	<u>197</u>	<u>\$57,530</u>	<u>29,446</u>	<u>\$227,259</u>	<u>96,402</u>	<u>(\$213,808)</u>	<u>(8,905)</u>	<u>(\$17,412)</u>	<u>(3,802)</u>
	Victim Restitution		Destroyed		Other Adjustments		Value Change		Fair Value Adjustment		9/30/2000 Financial Statement Balance	
	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number	Value	Number
Currency	\$0	---	\$0	---	\$6,567	---	\$88	---	\$0	---	\$16,639	---
Other Monetary Instruments	0	0	0	0	(964)	0	(21)	0	(172)	0	366	0
Real Property	0	0	0	0	1,721	2	(817)	0	402	0	21,464	120
General Property	0	0	(220)	(16,262)	194	634	(399)	0	(9,799)	0	3,828	8,364
Vessels	0	0	(1)	(16)	25	7	(183)	0	(327)	0	959	43
Aircraft	0	0	0	0	0	0	0	0	7	0	65	2
Vehicles	0	0	(2)	(51)	183	144	(152)	0	(1,877)	0	4,501	1,582
Prohibited Items	---	<u>0</u>	---	<u>(71,266)</u>	---	<u>558</u>	---	<u>0</u>	---	<u>0</u>	---	<u>16,780</u>
Total Forfeited Property (Gross)	<u>\$0</u>	<u>0</u>	<u>(\$223)</u>	<u>(87,595)</u>	<u>\$1,159</u>	<u>1,345</u>	<u>(\$1,572)</u>	<u>0</u>	<u>(\$11,766)</u>	<u>0</u>	<u>\$31,183</u>	<u>26,891</u>
Less Allowance											<u>(3,069)</u>	
Total Forfeited Property (Net)											<u>\$28,114</u>	
Grand Total	<u>\$0</u>	<u>0</u>	<u>(\$223)</u>	<u>(87,595)</u>	<u>\$7,726</u>	<u>1,345</u>	<u>(\$1,484)</u>	<u>0</u>	<u>(\$11,766)</u>	<u>0</u>	<u>\$44,753</u>	<u>26,891</u>

Analysis of Change in Prohibited (Non-Valued) Forfeited Property

Category	Balance October 1, 2000			New Seizures			Remissions		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	143,001	314,194	---	558,781	1,231,889	---	(1,018)	(2,244)	---
Cocaine	18,670	41,047	---	39,510	87,104	---	(253)	(558)	---
Heroin	1,765	3,880	---	1,841	4,059	---	(111)	(245)	---
Firearms	---	---	3,428	---	---	11,374	---	---	(1,762)
Pornography	---	---	1,972	---	---	6,442	---	---	(26)
Other	---	---	0	---	---	0	---	---	0
Total	<u>163,436</u>	<u>359,121</u>	<u>5,400</u>	<u>600,132</u>	<u>1,323,052</u>	<u>17,816</u>	<u>(1,382)</u>	<u>(3,047)</u>	<u>(1,788)</u>

Category	New Forfeitures			Adjustments			Balance September 30, 2001		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	(563,359)	(1,241,981)	---	(6,161)	(13,583)	---	131,244	288,275	---
Cocaine	(38,143)	(84,090)	---	(4,428)	(9,762)	---	15,356	33,741	---
Heroin	(1,516)	(3,342)	---	31	68	---	2,010	4,420	---
Firearms	---	---	(7,728)	---	---	(28)	---	---	5,284
Pornography	---	---	(7,242)	---	---	466	---	---	1,612
Other	---	---	0	---	---	0	---	---	0
Total	<u>(603,018)</u>	<u>(1,329,413)</u>	<u>(14,970)</u>	<u>(10,558)</u>	<u>(23,277)</u>	<u>438</u>	<u>148,610</u>	<u>326,436</u>	<u>6,896</u>

Note: This schedule is presented for material prohibited (non-valued) property only.
The ending balance for firearms includes only those seized items that can actually be used as firearms.
(FY 2000 Accountability Report did not separately present the Analysis of Prohibited Forfeited Property.)

13. *Property, Plant and Equipment, Net*

As of September 30, 2001 and September 30, 2000, property, plant and equipment consisted of the following (in millions):

<u>As of September 30, 2001:</u>	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	Total 2001
Land	N/A	N/A	\$22	\$0	\$22
Structures, Facilities	S/L	3-50 yrs	700	(239)	461
ADP Software	S/L	2-10 yrs	291	(68)	223
Equipment	S/L	2-20 yrs	1,231	(678)	553
Assets under Capital Lease	S/L	2-25 yrs	177	(18)	159
Construction in Progress	N/A	N/A	299	0	299
Aircraft	S/L	12-20 yrs	413	(229)	184
ADP Equipment	S/L	3-5 yrs	1,734	(692)	1,042
Vessels	S/L	5-10 yrs	19	(17)	2
Vehicles	S/L	6 yrs	92	(43)	49
Other	S/L	2-30 yrs	<u>421</u>	<u>(125)</u>	<u>296</u>
Total	N/A	N/A	<u>\$5,399</u>	<u>(\$2,109)</u>	<u>\$3,290</u>

<u>As of September 30, 2000:</u>	Depreciation Method	Service Life	Acquisition Cost	Accumulated Depreciation	Total 2000
Land	N/A	N/A	\$22	\$0	\$22
Structures, Facilities	S/L	3-50 yrs	604	(227)	377
ADP Software	S/L	2-10 yrs	90	(31)	59
Equipment	S/L	2-20 yrs	1,122	(620)	502
Assets under Capital Lease	S/L	2-25 yrs	121	(41)	80
Construction in Progress	N/A	N/A	244	0	244
Aircraft	S/L	12-20 yrs	409	(206)	203
ADP Equipment	S/L	3-5 yrs	1,409	(382)	1,027
Vessels	S/L	5-10 yrs	24	(22)	2
Vehicles	S/L	6 yrs	66	(39)	27
Other	S/L	2-30 yrs	<u>336</u>	<u>(88)</u>	<u>248</u>
Total	N/A	N/A	<u>\$4,447</u>	<u>(\$1,656)</u>	<u>\$2,791</u>

* N/A -Not Applicable

The Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. GSA charges a standard level users fee which approximates commercial rental rates for similar properties.

The Treasury Complex (Main Treasury Building and Annex) was declared a national historical landmark in 1972. The Treasury Complex is treated as a multi-use heritage asset and is expected to be preserved indefinitely. The Department also has four multi-use heritage assets located in Puerto Rico.

14. *Non-Entity Assets*

As of September 30, 2001 and September 30, 2000, non-entity assets consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Intra-governmental Assets:		
Fund Balance	\$1,801	\$755
Loans and Interest Receivable	179,616	166,045
Investments and Related Interest	-	-
Accounts Receivable and Related Interest	666	942
Advances to the Black Lung Trust Fund	7,254	6,749
Due from the General Fund *	<u>5,513,219</u>	<u>5,382,942</u>
Total Non-Entity Intra-governmental Assets	\$5,702,556	\$5,557,433
Cash, Foreign Currency and Other Monetary Assets	53,665	54,692
Gold & Silver Reserves	10,933	10,933
Loans and Interest Receivable	1,472	1,767
Tax/Trade and Other Receivables, and Related Interest, Net	21,253	23,520
Other Assets	<u>53</u>	<u>52</u>
Total Non-Entity Assets	<u>\$5,789,932</u>	<u>\$5,648,397</u>

* See Note 5. Due from the General Fund, above, does not include entity investments.

15. *Federal Debt & Interest Payable*

The Department is responsible for administering the Federal Debt on behalf of the Federal Government. The Federal Debt includes borrowings from the public as well as borrowings from Federal agencies. The Federal Debt managed by the Department does not include debt issued by other governmental agencies such as the Tennessee Valley Authority, or the Department of Housing and Urban Development. The Federal Debt as of September 30, 2001 and September 30, 2000 were as follows (in millions):

Intra-governmental

	<u>2001</u>	<u>2000</u>
Beginning Balance	\$2,204,267	\$1,952,715
New Borrowings	234,072	251,552
Premium/Discount	(6,217)	(4,394)
Interest Payable Not Covered by Budgetary Resources	<u>39,915</u>	<u>37,186</u>
Total, Not Covered by Budgetary Resources	<u>\$2,472,037</u>	<u>\$2,237,059</u>

*New Borrowings (Intra-governmental) - represent the net increase in amounts borrowed.

Owed to the public

	<u>2001</u>	<u>2000</u>
Beginning Balance	\$3,439,022	\$3,668,380
New Borrowings	2,556,482	2,042,955
Repayments	(2,656,194)	(2,272,312)
Premium/Discount	(46,010)	(56,150)
Interest Payable Not Covered by Budgetary Resources	<u>39,496</u>	<u>44,221</u>
Total, Not Covered by Budgetary Resources	<u>\$3,332,796</u>	<u>\$3,427,094</u>

Debt held by the public approximates the federal government's competition with other sectors in the credit markets. This affects interest rates and private capital accumulation.

In contrast, debt held by Federal entities, primarily trust funds, represents the cumulative annual surpluses of these funds (i.e. excess of receipts over disbursements plus accrued interest). Debt held by Federal entities does not have any of the economic effects of borrowings from the public. It is not a current transaction of the government with the public; it does not compete with the private sector for available funds in the credit markets. It reduces the need to borrow from the public and so may hold down interest rates. Unlike debt held by the public, debt held by Federal entities does not represent an immediate burden on current taxpayers. Rather it is a claim on future resources. The surplus is held in Treasury securities which gives the Federal entities a claim on the Federal Government, equal to the value of those securities. When the securities have to be redeemed, the Department must come up with the cash. Actions that could be taken to meet these cash needs include lowering spending, increasing taxes, and increasing borrowings from the public.

Federal Debt Held by Federal Agencies

Certain Federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the Federal Government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the Federal Government. The vast majority are non-marketable securities issued mostly at par value. Most non-marketable debt securities are issued at par value, but some are issued at market prices whose prices and interest rates reflect market terms. The average interest rate for Government Account Securities (GAS) in fiscal year 2001 was 6.4 percent (and 6.7 percent in FY 2000).

The Federal Debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The investments held, at par value (not including interest receivable), by the various Federal agencies as of September 30, 2001 and September 30, 2000 were as follows (in millions):

	<u>2001</u>	<u>2000</u>
SSA: Federal Old-Age and Survivors Insurance Trust Fund	\$1,034,113	\$893,519
OPM: Civil Service Retirement and Disability Fund *	527,608	496,987
DOD: Military Retirement Fund	156,978	149,348
HHS: Federal Hospital Insurance Trust Fund	197,137	168,859
SSA: Federal Disability Insurance Trust Fund *	135,842	113,707
DOL: Unemployment Trust Fund *	88,638	86,399
HHS: Federal Supplementary Medical Insurance Trust Fund	41,978	45,075
FDIC: The Bank Insurance Fund	30,677	29,326
DOT: Highway Trust Fund	24,115	31,023
OPM: Employees' Life Insurance Fund	23,690	22,372
RRB: Railroad Retirement Account	24,983	22,628
HUD: FHA Liquidating Account	17,282	17,260
VA: National Service Life Insurance Fund	11,639	11,804
Nuclear Waste Disposal Fund	21,060	17,551
Other Programs and Funds - Consolidated	102,599	98,409
Total Federal Debt Held By Federal Entities	<u>\$2,438,339</u>	<u>\$2,204,267</u>

* These amounts include marketable Treasury securities as well as Government Account Series (GAS) securities as follows (in millions):

	<u>GAS Securities</u>	<u>Marketable Treasury Securities</u>	<u>2001</u>	<u>2000</u>
Civil Service Retirement and Disability Fund, Par Value	\$527,189	\$419	\$527,608	\$496,987
Federal Disability Insurance Trust Fund, Par Value	135,802	40	135,842	113,707
Unemployment Trust Fund	88,638	0	88,638	86,399

Abbreviations used above:

Social Security Administration (SSA); Office of Personnel Management (OPM); Department of Defense (DOD); Department of Health and Human Services (HHS); Department of Labor (DOL); Federal Deposit Insurance Corporation (FDIC); Department of Transportation (DOT); Railroad Retirement Board (RRB); Department of Housing and Urban Development (HUD); and Department of Veterans Affairs (VA).

Federal Debt Held by the Public

As of September 30, 2001 and September 30, 2000, Federal Debt held by the Public consisted of the following (at par value, in millions):

	<u>Term</u>	<u>Average Interest Rates</u>	<u>2001</u>	<u>2000</u>
Marketable:				
Treasury Bills	<i>1 Year Or Less</i>	3.5%	\$734,856	\$616,174
Treasury Notes	<i>Over 1 Year - 10 Years</i>	5.8%	1,528,095	1,724,263
Treasury Bonds	<i>Over 10 Years</i>	8.0%	<u>652,274</u>	<u>668,228</u>
Total Marketable			\$2,915,225	\$3,008,665
Non-Marketable	<i>On Demand to Over 10 Years</i>	6.3%	<u>424,085</u>	<u>430,357</u>
Total Federal Debt (Public)			<u>\$3,339,310</u>	<u>\$3,439,022</u>

Marketable bills are issued at a discount and repaid at the par amount of the security upon maturity. The average interest rate on a Treasury Bill represents the average effective yield on the security.

Marketable notes and bonds are issued as long term securities that pay semi-annual interest based on the security's stated interest rate. These securities are issued at either par value, or at an amount that reflects a discount or a premium. The average interest rate represents the stated interest rate adjusted for any discount or premium. As of September 30, 2001, marketable notes included \$95,147 million of Inflation Indexed Notes and the marketable bonds included \$39,744 million of Inflation Indexed Bonds. (As of September 30, 2000, the amounts were \$81,597 million and \$33,391 million, respectively.)

Non-Marketable securities primarily consist of \$186,509 million in U.S. Savings Securities (\$184,449 million as of September 30, 2000), \$146,364 million in securities issued to State and Local Governments (\$153,288 million as of September 30, 2000), \$18,269 million in Foreign Series Securities (\$25,431 million as of September 30, 2000), and \$29,995 million Domestic Series Securities (\$29,996 million as of September 30, 2000). Non-marketable securities are issued at both par and discounted values. The average interest rate on the non-marketable securities represents the weighted effective yield.

16. Loans Payable & Interest

Borrowings outstanding are with the Civil Service Trust Fund, which is administered by the Office of Personnel Management. The interest rates on these borrowings range from 8.75 percent to 9.25 percent, and the maturity dates range from June 30, 2003 to June 30, 2005.

17. Certificates Issued to Federal Reserve Banks

The Special Drawing Rights Act of 1968 authorized the Secretary of the Treasury to issue certificates, not to exceed the value of SDR holdings, to the Federal Reserve Bank in return for interest free dollar amounts equal to the face value of certificates issued. The certificates may be issued to finance the acquisition of SDRs from other countries or to provide resources for financing other Exchange Stabilization Fund operations. Certificates issued are to be redeemed by the Department at such times and in such amounts as the Secretary of the Treasury may determine.

18. D.C. Pension Liability

On October 1, 1997, the Department took responsibility (assets and liabilities) for certain District of Columbia retirement plans. The Act was intended to relieve the District of Columbia Government of the burden of unfunded pension liabilities transferred to the District by the Federal Government in 1979. Pursuant to the Balanced Budget Act of 1997, as amended (the Act), the Secretary established the District of Columbia Federal Pension Liability Trust Fund (the Trust Fund), to make Federal Benefit Payments and pay necessary administrative expenses for the District of Columbia Police Officers, Firefighters, and Teachers Retirement Plans; and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund) to make Federal Benefit Payments and pay necessary administrative expenses of the Judges' Retirement Plan.

Treasury assumed responsibility for benefits earned both prior to and after June 30, 1997, for the judges and benefits earned prior to June 30, 1997, for the police officers, firefighters, and teachers. The Act also established the Federal Supplemental District of Columbia Pension Fund (the Supplemental Fund) that accumulates funds to finance Federal Benefits Payments and necessary administrative expenses for Police Officers, Firefighters, and Teachers Retirement Plans after funds in the Trust Fund have been depleted. Treasury is required to make annual payments from the General Fund of the Treasury to the Judicial Retirement Fund and the Supplemental Fund. The amount paid into the Supplemental Fund from the General Fund was \$197.1 million during fiscal year 2001 (and \$181.7 million during FY 2000). The amount paid into the Judicial Retirement Fund from the General Fund was \$5.1 million during fiscal year 2001 (and \$5.4 million during FY 2000).

As of September 30, 2001, the assets of the three funds were approximately \$4 billion, and liabilities were \$8.2 billion, resulting in an unfunded liability of \$4.2 billion. (As of September 30, 2000, the assets of the three funds were approximately \$4 billion, and liabilities were \$7.6 billion, resulting in an unfunded liability of \$3.6 billion.) The actuarial cost method used to determine costs for the Trust and Judicial Retirement funds is the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial liability is based upon assumptions selected by the U.S. Treasury. The assumptions used were an annual rate of investment return of 6%, salary increases at an annual rate of 4% (3.5% in the prior year), and inflation and cost-of-living adjustments at 3% (2.5% in the prior year). The costs incurred by the plans for the year are included in the Statement of Net Cost.

19. Commitments, Contingencies, and Other Risks

The Department is a party in various administrative proceedings, legal actions, and claims brought by or against it. At September 30, 2001, the Department accrued \$110.2 million for these matters which represents management's estimation of probable claims that will be assessed. At September 30, 2000, the Department accrued \$43 million for these matters which represented management's estimation of probable claims that would be assessed.

Contingencies related to proceedings, actions and claims for which it is reasonably possible that a loss may be incurred are estimated to be approximately \$732.8 million. At September 30, 2000, contingencies related to proceedings, actions and claims for which it was reasonably possible that a loss could be incurred were estimated to be approximately \$203.3 million.

Customs counsel reported the settlement of a case, Swisher International v. United States, resulting in a plan to pay approximately \$656 million. This case involves the jurisdictional basis for export refunds relative to Harbor Maintenance taxes. Of this \$656 million, approximately \$44 million in claims has been approved

and accrued. Future amounts, approximately \$612 million, will be accrued upon approval of claims by the U.S. Customs Service.

The Department also identified cases in which a loss is reasonably possible, but for which a range of potential loss could not be determined. These cases involve retirement and overtime provisions and criminal investigations. Based on the information provided by legal counsel, in the opinion of management the ultimate resolution of some of these proceedings, actions, and claims will not materially affect the Department's financial position or results.

However, for the remainder of these cases, based on the information provided by legal counsel and in the opinion of management, the ultimate resolution of these proceedings, actions and claims may materially affect the Department's financial position or results. These specific cases are summarized as follows:

Jones v. Summers: A traveler alleges that a personal search by Customs Inspector was racially motivated and the traveler seeks damages.

Cruz v. United States and de la Torre v. United States: These are claims that Mexican workers who were employed in the United States beginning in 1942 did not receive funds which were withheld from the workers, nor did they receive an accounting for such funds.

Law Enforcement Retirement Cases: Customs inspectors and canine enforcement officers assert that they are entitled to special retirement provisions accorded to law enforcement officers.

Anderson v. United States: This is a "Bivens" type class action lawsuit alleging that certain personal searches by Customs officers violated the Fourth, Fifth and Fourteenth Amendment rights of African- American female travelers. The plaintiffs also assert claims under the Federal Tort Claims Act and on other bases.

Hohenberg Bros. Co. v. United States: This lawsuit seeks recovery of pre-summons and post-summons interest on the refund of export related Harbor Maintenance Taxes. The lawsuit is a test case for many similarly situated parties.

Sueoka v. United States: A class action suit against Treasury, several of its bureaus, and other agencies. The suit seeks to recover interest on seized currency, other monetary instruments, and claim or cost bonds filed, which were subsequently refunded by the defendant agencies. The suit also seeks recovery of certain deducted expenses which were allegedly improperly withheld.

Moore v. Summers: Four current and six former Secret Service employees allege that they have been discriminated against on the basis of race through a variety of personnel practices in Secret Service. The employees seek to have the complaint certified as a class action.

Adams v. United States: Criminal investigators in the IRS, Customs, ATF and Secret Service assert that they are entitled to overtime pay under the Fair Labor Standards Act.

Ferreiro v. O'Neill: Plaintiffs possibly claim allegedly past due civil service retirement, social security and veterans benefits relating to individuals' employment by the U.S. government in Cuba prior to 1963 or, possibly U.S. civil service retirees living in Cuba.

Cobell v. Norton (formerly Cobell v. Babbitt): Native Americans allege that the Departments of Interior and Treasury have breached trust obligations with respect to the management of the plaintiffs' Individual Indian Monies. The plaintiffs have not made claims for specific dollar amounts and their claims are complex.

Leider v. United States: Plaintiff seeks interest on creditor distributions paid out by bankruptcy trustees, but which were returned as undeliverable by the Postal Service. Plaintiff seeks to have the matter certified as a class action for similarly situated creditors.

The Department has subscribed to additional capital for certain multilateral development banks (MDBs), portion of which are callable. However, these subscriptions are callable under certain limited circumstances to meet the obligations of the respective MDBs. There has never been, nor is there anticipated, a call on the Department's subscriptions. As of September 30, 2001 and September 30, 2000 U.S. callable capital in MDBs were as follows (in millions):

	<u>2001</u>	<u>2000</u>
Inter-American Development Bank	\$29,007	\$28,687
Asian Development Bank	6,620	5,911
International Bank for Reconstruction & Development	29,966	22,642
African Development Bank	1,109	1,011
Multilateral Investment Guarantee Agency	247	198
European Bank for Reconstruction and Development	1,187	1,063
North American Development Bank	<u>1,275</u>	<u>1,275</u>
Total	<u>\$69,411</u>	<u>\$60,787</u>

20. *Liabilities Not Covered by Budgetary and Other Resources*

As of September 30, 2001 and September 30, 2000, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:		
Federal Debt and Interest Payable	\$2,472,037	\$2,237,059
Other Intra-governmental Liabilities	<u>167</u>	<u>158</u>
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources:	<u>\$2,472,204</u>	<u>\$2,237,217</u>
Federal Debt and Interest Payable	3,332,796	3,427,094
DC Pension Liability	4,203	3,553
Other Liabilities	<u>1,781</u>	<u>1,474</u>
Total Liabilities Not Covered by Budgetary & Other Resources	<u>\$5,810,984</u>	<u>\$5,669,338</u>

21. Net Position

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and had not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired. The amount reported for undelivered orders in this note is different than the amount reported on the Combined Statement of Budgetary Resources. The difference is attributed to the Balance Sheet being prepared on a consolidated basis versus the Statement of Budgetary Resources being prepared on a combined basis.

Cumulative Results of Operations represents the net results of operations since inception plus the cumulative amount of prior period adjustments, and includes cumulative amounts related to investments in capitalized assets and donations and transfers of assets in and out without reimbursement. Also included as a reduction in Cumulative Results of Operations are accruals for which the related expenses require funding from future appropriations and assessments. These future funding requirements include, among others (a) accumulated annual leave earned but not taken, (b) accrued workers compensation, and expenses for contingent liabilities. Also included in cumulative results of operations are prior period adjustments. Prior period adjustments primarily involved accounting corrections related to prior year activity.

22. Consolidated Statement of Net Cost & Net Costs of Treasury Sub-organizations

The Department's Consolidated Statement of Net Cost displays information both on a combined and a consolidated basis. The complexity of the Department's organizational structure and operations requires that supporting schedules be included in the notes to the financial statements. The supporting schedules provide consolidating information, which fully displays the costs of each sub-organization.

The programs displayed on the Department's Consolidated Statement of Net Cost are equivalent to the missions identified in the Department's FY 1998-2003 Strategic Plan.

The classification of sub-organizations has been determined in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 4 which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

Each sub-organization is responsible for accumulating costs. The assignment of the costs to the Department-wide programs is the result of using the following cost assignment methods: (1) direct costs; (2) cause and effect; and (3) cost allocation.

The Department's FY 2000-2005 Strategic Plan includes a management mission. Costs related to the management mission are not displayed as a separate program. The rationale is that the strategic plan (for fiscal years 2000-2005) does not consider the Management Mission to be programmatic. In addition, SFFAS No. 4, recognizes that "a reporting entity and its segments may incur general management and administrative support costs that cannot be traced, assigned, or allocated to segments and their outputs. These unassigned costs are part of the organization costs, and they should be reported on the entity's financial statements (such as the Statement of Net Cost) as costs not assigned to programs." Accordingly, high level general management and administrative support costs are displayed as costs not assigned to

programs. Costs not assigned to programs also include non-production costs (costs that are linked to events other than the production of goods and services) that cannot be assigned to one of the programs.

In addition, Intra-Departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations. Accordingly, such costs/revenues are eliminated in the consolidation process.

To the extent practical or reasonable to do so, earned revenue is deducted from the gross costs of the programs to determine their net cost. There are no precise guidelines to determine the degree to which earned revenue can reasonably be attributed to programs. The attribution of earned revenues requires the exercise of managerial judgment.

The Department's Consolidated Statement of Net Cost also presents interest expense on the Federal Debt and other Federal costs incurred on behalf of the Federal Government (payments made to/by the Judgment Fund, the Resolution Funding Corporation, the District of Columbia, etc.). These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve intra-Departmental transactions.

The following combining tables present the gross costs, earned revenue, and net costs for each program by sub-organization of the Department for the year ended September 30, 2001 and September 30, 2000. Also presented are the gross costs, earned revenues, and net costs by sub-organization for the line items, "Cost not Assigned to Programs," for the year ended September 30, 2001 and September 30, 2000 (in millions):

Program Costs for Fiscal Year Ended September 30, 2001:***Economic: Promote Prosperous and Stable American and World Economies***

<u>Suborganization</u>	<u>Intra-Governmental</u>	<u>With the Public</u>	<u>Total Costs</u>	<u>Earned Revenues</u>	2001 Program Costs	2000 Program Costs
Alcohol, Tobacco and Firearms	\$21	\$51	\$72	\$0	\$72	\$57
Bureau of the Public Debt	3	13	16	0	16	16
Community Development Financial Inst Fund	5	107	112	1	111	105
Departmental Offices	11	39	50	0	50	45
Exchange Stabilization Fund	4	918	922	1,263	(341)	292
Office of the Comptroller of the Currency	58	362	420	416	4	(13)
Office of Thrift Supervision	16	151	167	156	11	18
Treasury International Assistance Programs	<u>73</u>	<u>1,707</u>	<u>1,780</u>	<u>0</u>	<u>1,780</u>	<u>1,405</u>
Total	<u>\$191</u>	<u>\$3,348</u>	<u>\$3,539</u>	<u>\$1,836</u>	<u>\$1,703</u>	<u>\$1,925</u>

Financial: Manage the Government's Finances

<u>Suborganization</u>	<u>Intra-Governmental</u>	<u>With the Public</u>	<u>Total Costs</u>	<u>Earned Revenues</u>	2001 Program Costs	2000 Program Costs
Alcohol, Tobacco and Firearms	\$15	\$38	\$53	\$1	\$52	\$68
Bureau of Engraving and Printing	65	382	447	391	56	(5)
Bureau of the Public Debt	66	235	301	8	293	304
Customs Service	508	1,364	1,872	115	1,757	1,566
DC Pensions Fund	1	1,066	1,067	215	852	0
Departmental Offices	5	26	31	0	31	26
Federal Financing Bank	3,303	0	3,303	3,186	117	66
Financial Management Service	182	302	484	115	369	368
Internal Revenue Service	2,105	6,338	8,443	146	8,297	8,151
Mint	<u>59</u>	<u>908</u>	<u>967</u>	<u>2,424</u>	<u>(1,457)</u>	<u>(2,575)</u>
Total	<u>\$6,309</u>	<u>\$10,659</u>	<u>\$16,968</u>	<u>\$6,601</u>	<u>\$10,367</u>	<u>\$7,969</u>

Law Enforcement: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe And Drug-Free America

<u>Suborganization</u>	<u>Intra-Governmental</u>	<u>With the Public</u>	<u>Total Costs</u>	<u>Earned Revenues</u>	2001 Program Costs	2000 Program Costs
Alcohol, Tobacco and Firearms	\$144	\$429	\$573	\$23	\$550	\$446
Customs Service	264	708	972	59	913	903
Departmental Offices	148	12	160	0	160	63
Federal Law Enforcement Training Center	22	117	139	32	107	93
Financial Crimes Enforcement Network	11	24	35	1	34	28
Internal Revenue Service	56	1,035	1,091	90	1,001	572
Secret Service	249	784	1,033	10	1,023	939
Treasury Forfeiture Fund	<u>67</u>	<u>39</u>	<u>106</u>	<u>0</u>	<u>106</u>	<u>131</u>
Total	<u>\$961</u>	<u>\$3,148</u>	<u>\$4,109</u>	<u>\$215</u>	<u>\$3,894</u>	<u>\$3,175</u>

Program Costs for Fiscal Year Ended September 30, 2000:***Economic: Promote Prosperous and Stable American and World Economies***

<u>Suborganization</u>	<u>Intra-Governmental</u>	<u>With the Public</u>	<u>Total Costs</u>	<u>Earned Revenues</u>	<u>2000 Program Costs</u>
Alcohol, Tobacco and Firearms	\$6	\$51	\$57	\$0	\$57
Bureau of the Public Debt	2	14	16	0	16
Community Development Financial Inst Fund	6	100	106	1	105
Departmental Offices	9	36	45	0	45
Exchange Stabilization Fund	6	1,878	1,884	1,592	292
Office of the Comptroller of the Currency	55	334	389	402	(13)
Office of Thrift Supervision	15	146	161	143	18
Treasury International Assistance Programs	<u>110</u>	<u>1,295</u>	<u>1,405</u>	<u>0</u>	<u>1,405</u>
Total	<u>\$209</u>	<u>\$3,854</u>	<u>\$4,063</u>	<u>\$2,138</u>	<u>\$1,925</u>

Financial: Manage the Government's Finances

<u>Suborganization</u>	<u>Intra-Governmental</u>	<u>With the Public</u>	<u>Total Costs</u>	<u>Earned Revenues</u>	<u>2000 Program Costs</u>
Alcohol, Tobacco and Firearms	\$7	\$62	\$69	\$1	\$68
Bureau of Engraving and Printing	59	412	471	476	(5)
Bureau of the Public Debt	60	253	313	9	304
Customs Service	692	1,000	1,692	126	1,566
Departmental Offices	3	23	26	0	26
Federal Financing Bank	3,437	0	3,437	3,371	66
Financial Management Service	143	312	455	87	368
Internal Revenue Service	1,718	6,588	8,306	155	8,151
Mint	<u>68</u>	<u>1,060</u>	<u>1,128</u>	<u>3,703</u>	<u>(2,575)</u>
Total	<u>\$6,187</u>	<u>\$9,710</u>	<u>\$15,897</u>	<u>\$7,928</u>	<u>\$7,969</u>

Law Enforcement: Safeguard Our Financial Systems, Protect Our Nation's Leaders, and Secure a Safe And Drug-Free America

<u>Suborganization</u>	<u>Intra-Governmental</u>	<u>With the Public</u>	<u>Total Costs</u>	<u>Earned Revenues</u>	<u>2000 Program Costs</u>
Alcohol, Tobacco and Firearms	\$45	\$419	\$464	\$18	\$446
Customs Service	357	611	968	65	903
Departmental Offices	54	9	63	0	63
Federal Law Enforcement Training Center	19	102	121	28	93
Financial Crimes Enforcement Network	7	21	28	0	28
Internal Revenue Service	93	535	628	56	572
Secret Service	254	695	949	10	939
Treasury Forfeiture Fund	<u>86</u>	<u>45</u>	<u>131</u>	<u>0</u>	<u>131</u>
Total	<u>\$915</u>	<u>\$2,437</u>	<u>\$3,352</u>	<u>\$177</u>	<u>\$3,175</u>

Costs Not Assigned to Programs:**FYE September 30, 2001:**

	Intra-	With the	Total	Earned	2001 Unassigned
<u>Suborganization</u>	<u>Governmental</u>	<u>Public</u>	<u>Costs</u>	<u>Revenue</u>	<u>Net Costs</u>
Alcohol, Tobacco and Firearms	\$22	\$48	\$70	\$0	\$70
Departmental Offices	59	290	349	241	108
Franchise Fund	20	198	218	221	(3)
Inspector General	10	23	33	0	33
Treasury Inspector General for Tax Admin.	<u>13</u>	<u>105</u>	<u>118</u>	<u>3</u>	<u>115</u>
Total	<u>\$124</u>	<u>\$664</u>	<u>\$788</u>	<u>\$465</u>	<u>\$323</u>

FYE September 30, 2000:

	Intra-	With the	Total	Earned	2000 Unassigned
<u>Suborganization</u>	<u>Governmental</u>	<u>Public</u>	<u>Costs</u>	<u>Revenue</u>	<u>Net Costs</u>
Alcohol, Tobacco and Firearms	\$10	\$70	\$80	\$0	\$80
DC Pensions Fund	1	223	224	213	11
Departmental Offices	108	273	381	225	156
Franchise Fund	28	135	163	163	0
Inspector General	9	21	30	0	30
Treasury Inspector General for Tax Admin.	<u>9</u>	<u>97</u>	<u>106</u>	<u>2</u>	<u>104</u>
Total	<u>\$165</u>	<u>\$819</u>	<u>\$984</u>	<u>\$603</u>	<u>\$381</u>

Supporting Schedule -- by Suborganization
Net Cost of Operations
Year Ended September 30, 2001
(in millions)

<u>Suborganization</u>	<u>Program Costs, Net</u>	<u>Unassigned Costs, Net</u>	2001 Total Net Costs	2000 Total Net Costs
Alcohol, Tobacco and Firearms	\$674	\$70	\$744	\$651
Bureau of Engraving and Printing	56	0	56	(5)
Bureau of the Public Debt	309	0	309	320
Community Development Financial Institutions Fund	111	0	111	105
Customs Service	2,670	0	2,670	2,469
DC Pensions Fund	852	0	852	11
Departmental Offices	241	108	349	290
Exchange Stabilization Fund	(341)	0	(341)	292
Federal Financing Bank	117	0	117	66
Federal Law Enforcement Training Center	107	0	107	93
Financial Crimes Enforcement Network	34	0	34	28
Financial Management Service	369	0	369	368
Franchise Fund	0	(3)	(3)	0
Inspector General	0	33	33	30
Internal Revenue Service	9,298	0	9,298	8,723
Mint	(1,457)	0	(1,457)	(2,575)
Office of the Comptroller of the Currency	4	0	4	(13)
Office of Thrift Supervision	11	0	11	18
Secret Service	1,023	0	1,023	939
Treasury Forfeiture Fund	106	0	106	131
Treasury Inspector General for Tax Administration	0	115	115	104
Treasury International Assistance Programs	<u>1,780</u>	<u>0</u>	<u>1,780</u>	<u>1,405</u>
Total	<u>\$15,964</u>	<u>\$323</u>	<u>\$16,287</u>	<u>\$13,450</u>

Supporting Schedule -- by Suborganization
Net Cost of Operations
Year Ended September 30, 2000
(in millions)

<u>Suborganization</u>	<u>Program Costs, Net</u>	<u>Unassigned Costs, Net</u>	<u>2000 Total Net Costs</u>
Alcohol, Tobacco and Firearms	\$571	\$80	\$651
Bureau of Engraving and Printing	(5)	0	(5)
Bureau of the Public Debt	320	0	320
Community Development Financial Institutions Fund	105	0	105
Customs Service	2,469	0	2,469
DC Pensions Fund	0	11	11
Departmental Offices	134	156	290
Exchange Stabilization Fund	292	0	292
Federal Financing Bank	66	0	66
Federal Law Enforcement Training Center	93	0	93
Financial Crimes Enforcement Network	28	0	28
Financial Management Service	368	0	368
Franchise Fund	0	0	0
Inspector General	0	30	30
Internal Revenue Service	8,723	0	8,723
Mint	(2,575)	0	(2,575)
Office of the Comptroller of the Currency	(13)	0	(13)
Office of Thrift Supervision	18	0	18
Secret Service	939	0	939
Treasury Forfeiture Fund	131	0	131
Treasury Inspector General for Tax Administration	0	104	104
Treasury International Assistance Programs	<u>1,405</u>	<u>0</u>	<u>1,405</u>
Total	<u>\$13,069</u>	<u>\$381</u>	<u>\$13,450</u>

23. Pricing Policies - Exchange Revenues

A portion of the earned revenue displayed on the Department's Statement of Net Cost is generated by the provision of goods or services to the public or to other Federal entities.

Other than as described below, exchange revenues resulting from work performed for other Treasury sub-organizations or Federal entities represent reimbursements for the full costs incurred by the performing entity. Reimbursable work between Federal appropriations is subject to the Economy Act (31 U.S.C. 1535) or other statutes authorizing reimbursement. Prices associated with revenue earned from the public are based on recovery of full cost or are set at a market price.

The Federal Law Enforcement Training Center (FLETC) receives appropriated funds to cover the portions of the cost of basic training provided to Federal, state and local law enforcement officers. FLETC charges tuition to recover the full cost of training and labor related to advanced training. FLETC does not recover the full cost of training and labor related to basic training of Federal law enforcement officers. FLETC recovers the full cost of food & lodging and miscellaneous expenses associated with both basic and advanced training. FLETC charges prices, which recover the full cost of training private and foreign law enforcement officers.

24. Total Cost and Earned Revenue by Federal Budget Functional Classification

The following information supports the Statement of Net Cost in the consolidated financial statements of the United States Government, for fiscal years ended September 30, 2001 and September 30, 2000 (in millions):

FYE September 30, 2001:

<u>Budget Functions</u>	<u>Agency Gross Cost</u>	<u>Agency Exchange Revenue</u>	<u>2001 Agency Net Cost</u>	<u>2000 Agency Net Cost</u>
Education and Training	\$364	\$0	\$364	\$317
Veterans Benefits	321	0	321	302
Energy	2	0	2	49
Commerce and Housing	1,047	548	499	1,191
Community and Regional Development	118	1	117	109
Net Interest	372,777	11,360	361,417	360,882
International Affairs	2,720	755	1,965	2,521
Administration of Justice	4,746	82	4,664	4,309
General Government	<u>21,300</u>	<u>6,487</u>	<u>14,813</u>	<u>12,032</u>
Total Net Cost	<u>\$403,395</u>	<u>\$19,233</u>	<u>\$384,162</u>	<u>\$381,712</u>

<u>Budget Functions</u>	<u>Gross Cost - Public</u>	<u>Gross Cost - Federal</u>	<u>Intra- Departmental Eliminations (Negatives)</u>	<u>Inter- departmental Gross Cost - Federal</u>	<u>2001 Agency Gross Cost</u>	<u>2000 Agency Gross Cost</u>
Education and Training	\$364	\$0	\$0	\$0	\$364	\$317
Veterans Benefits	321	0	0	0	321	302
Energy	0	2	0	2	2	49
Commerce and Housing	977	74	(4)	70	1,047	1,712
Community and Regional Development	115	5	(2)	3	118	109
Net Interest	217,685	155,855	(763)	155,092	372,777	370,946
International Affairs	2,643	79	(2)	77	2,720	3,308
Administration of Justice	3,599	1,459	(312)	1,147	4,746	4,394
General Government	<u>12,441</u>	<u>11,059</u>	<u>(2,200)</u>	<u>8,859</u>	<u>21,300</u>	<u>19,992</u>
Total Gross Cost	<u>\$238,145</u>	<u>\$168,533</u>	<u>(\$3,283)</u>	<u>\$165,250</u>	<u>\$403,395</u>	<u>\$401,129</u>

<u>Budget Functions</u>	<u>Exchange Revenue - Public</u>	<u>Exchange Revenue - Federal</u>	<u>Intra- departmental Eliminations (Negatives)</u>	<u>Inter- departmental Exch. Rev. - Federal</u>	<u>2001 Agency Exchange Revenue</u>	<u>2000 Agency Exchange Revenue</u>
Commerce and Housing	\$546	\$26	\$(24)	\$2	\$548	\$521
Community and Regional Development	1	0	(0)	0	1	0
Net Interest	0	13,346	(1,986)	11,360	11,360	10,064
International Affairs	754	511	(510)	1	755	787
Administration of Justice	37	158	(113)	45	82	85
General Government	<u>2,913</u>	<u>4,172</u>	<u>(598)</u>	<u>3,574</u>	<u>6,487</u>	<u>7,960</u>
Total Exchange Revenue	<u>\$4,251</u>	<u>\$18,213</u>	<u>(\$3,231)</u>	<u>\$14,982</u>	<u>\$19,233</u>	<u>\$19,417</u>

<u>FYE September 30, 2000:</u>	Agency	Agency	2000
<u>Budget Functions</u>	<u>Gross Cost</u>	<u>Exchange Revenue</u>	<u>Agency Net Cost</u>
Education and Training	\$317	\$0	\$317
Veterans Benefits	302	0	302
Energy	49	0	49
Commerce and Housing	1,712	521	1,191
Community and Regional Development	109	0	109
Net Interest	370,946	10,064	360,882
International Affairs	3,308	787	2,521
Administration of Justice	4,394	85	4,309
General Government	<u>19,992</u>	<u>7,960</u>	<u>12,032</u>
Total Net Cost	<u>\$401,129</u>	<u>\$19,417</u>	<u>\$381,712</u>

<u>Budget Functions</u>	Gross Cost - Public	Gross Cost - Federal	Intra-departmental Eliminations (Negatives)	Inter-departmental Gross Cost - Federal	2000 Agency Gross Cost
Education and Training	\$317	\$0	\$0	\$0	\$317
Veterans Benefits	302	0	0	0	302
Energy	0	49	0	49	49
Commerce and Housing	1,644	70	(2)	68	1,712
Community and Regional Development	106	6	(3)	3	109
Net Interest	230,231	141,783	(1,068)	140,715	370,946
International Affairs	3,197	112	(1)	111	3,308
Administration of Justice	3,439	1,153	(198)	955	4,394
General Government	<u>12,253</u>	<u>10,053</u>	<u>(2,314)</u>	<u>7,739</u>	<u>19,992</u>
Total Gross Cost	<u>\$251,489</u>	<u>\$153,226</u>	<u>(\$3,586)</u>	<u>\$149,640</u>	<u>\$401,129</u>

<u>Budget Functions</u>	Exchange Revenue - Public	Exchange Revenue - Federal	Intra-departmental Eliminations (Negatives)	Inter-departmental Exch. Rev. - Federal	2000 Agency Exchange Revenue
Commerce and Housing	\$519	\$26	\$(24)	\$2	\$521
Community and Regional Development	0	0	(0)	0	0
Net Interest	0	12,132	(2,068)	10,064	10,064
International Affairs	785	810	(808)	2	787
Administration of Justice	38	163	(116)	47	85
General Government	<u>4,297</u>	<u>4,209</u>	<u>(546)</u>	<u>3,663</u>	<u>7,960</u>
Total Exchange Revenue	<u>\$5,639</u>	<u>\$17,340</u>	<u>(\$3,562)</u>	<u>\$13,778</u>	<u>\$19,417</u>

**25. Combining Statement of Changes in Net Position by Sub-organization,
as of September 30, 2001 (in millions):**

	Alcohol Tobacco & Firearms	Bureau of Engraving & Printing	Bureau of Public Debt	Community Development Fin. Inst.	U.S. Customs Service	DC Pensions Fund	Departmental Offices	Exchange Stabilization Fund	Federal Financing Bank	Federal Law Enforcement Training Cntr.	Fin. Crimes Enforcement Network	Financial Management Service
Net Cost of Operations	\$744	\$56	\$360,503	\$111	\$2,670	\$852	\$349	\$(341)	\$117	\$107	\$34	\$8,102
Non-Exchange Revenues and Financing Sources												
Appropriations Used	719	0	620,239	113	1,207	5	364	0	0	128	32	8,102
Revenue from Forfeiture	0	0	0	0	0	0	0	0	0	0	0	0
Interest Revenue	0	0	0	0	0	0	0	0	0	0	0	1
Imputed Financing Sources	25	12	6	0	134	0	6	0	0	5	1	11
Financing Sources for Accrued Interest & Discount on the Debt	0	0	(6,310)	0	0	0	0	0	0	0	0	0
Transferred in	2	0	0	0	40	0	1	0	0	8	2	0
Transferred out	0	0	0	0	0	0	0	0	0	0	0	0
Transferred Out to the General Fund of the Treasury	0	0	(253,498)	0	0	0	0	0	0	0	0	(1)
Other	<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>1,269</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>4</u>
Total Financing Sources	<u>746</u>	<u>12</u>	<u>360,439</u>	<u>113</u>	<u>2,650</u>	<u>5</u>	<u>371</u>	<u>0</u>	<u>0</u>	<u>144</u>	<u>35</u>	<u>8,117</u>
Net Results of Operations	2	(44)	(64)	2	(20)	(847)	22	341	(117)	37	1	15
Prior Period Adjustments	<u>0</u>	<u>0</u>	<u>63</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>(1)</u>	<u>32</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>0</u>
Net Change in Cumulative Results of Operations	2	(44)	(1)	2	(15)	(847)	21	373	(117)	39	1	15
Increase (Decrease) in Unexpended Appropriation	<u>52</u>	<u>0</u>	<u>3</u>	<u>1</u>	<u>168</u>	<u>197</u>	<u>152</u>	<u>0</u>	<u>0</u>	<u>25</u>	<u>5</u>	<u>(5)</u>
Change in Net Position	54	(44)	2	3	153	(650)	173	373	(117)	64	6	10
Net Position -- (10/1/2000)	<u>110</u>	<u>593</u>	<u>21</u>	<u>141</u>	<u>1,624</u>	<u>(3,553)</u>	<u>222</u>	<u>27,320</u>	<u>(1)</u>	<u>220</u>	<u>7</u>	<u>115</u>
Net Position -- (9/30/2001)	<u>\$164</u>	<u>\$549</u>	<u>\$23</u>	<u>\$144</u>	<u>\$1,777</u>	<u>\$(4,203)</u>	<u>\$395</u>	<u>\$27,693</u>	<u>\$(118)</u>	<u>\$284</u>	<u>\$13</u>	<u>\$125</u>

Notes

25. Combining Statement of Changes in Net Position by Sub-organization (continued)

	Franchise Fund	Inspector General	Internal Revenue Service	U.S. Mint	Office of the Comptroller of the Currency	Office of Thrift Supervision	U.S. Secret Service	Treasury Forfeiture Fund	Treasury Inspector General for Tax Admin.	Treasury International Assistance Programs	Combined Total	Eliminations And Adjustments	9/30/2001 Consolidated
Net Cost of Operations	(\$3)	\$33	\$9,298	(\$1,457)	\$4	\$11	\$1,023	\$106	\$115	\$1,780	\$384,214	(\$52)	\$384,162
Non-Exchange Revenues and Financing Sources													
Appropriations Used	0	33	8,844	0	0	0	951	0	116	6,587	647,440	1	647,441
Revenue from Forfeiture	0	0	0	0	0	0	0	143	0	0	143	0	143
Interest Revenue	0	0	0	0	0	0	0	15	0	0	16	(16)	0
Imputed Financing Sources	2	0	406	9	15	5	26	0	0	0	663	(35)	628
Financing Sources for Accrued Interest & Discount on the Debt	0	0	0	0	0	0	0	0	0	0	(6,310)	0	(6,310)
Transferred in	0	0	9	0	0	0	28	34	0	290	414	(78)	336
Transferred out	0	0	0	0	0	0	(6)	(79)	0	0	(85)	80	(5)
Transferred Out to the General Fund of the Treasury	0	0	(41)	(1,383)	0	0	0	0	0	(361)	(255,284)	0	(255,284)
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>1,279</u>	<u>(7)</u>	<u>1,272</u>
Total Financing Sources	<u>2</u>	<u>33</u>	<u>9,218</u>	<u>(1,374)</u>	<u>15</u>	<u>5</u>	<u>999</u>	<u>114</u>	<u>116</u>	<u>6,516</u>	<u>388,276</u>	<u>(55)</u>	<u>388,221</u>
Net Results of Operations	5	0	(80)	83	11	(6)	(24)	8	1	4,736	4,062	(3)	4,059
Prior Period Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(11)</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>95</u>	<u>0</u>	<u>95</u>
Net Change in Cumulative Results of Operations	5	0	(80)	83	0	(6)	(19)	8	1	4,736	4,157	(3)	4,154
Increase (Decrease) in Unexpended Appropriation	<u>0</u>	<u>0</u>	<u>(5)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>137</u>	<u>0</u>	<u>3</u>	<u>(5,922)</u>	<u>(5,189)</u>	<u>0</u>	<u>(5,189)</u>
Change in Net Position	5	0	(85)	83	0	(6)	118	8	4	(1,186)	(1,032)	(3)	(1,035)
Net Position -- (10/1/2000)	<u>14</u>	<u>3</u>	<u>1,903</u>	<u>749</u>	<u>214</u>	<u>125</u>	<u>145</u>	<u>230</u>	<u>16</u>	<u>72,883</u>	<u>103,101</u>	<u>5</u>	<u>103,106</u>
Net Position -- (9/30/2001)	<u>\$19</u>	<u>\$3</u>	<u>\$1,818</u>	<u>\$832</u>	<u>\$214</u>	<u>\$119</u>	<u>\$263</u>	<u>\$238</u>	<u>\$20</u>	<u>\$71,697</u>	<u>\$102,069</u>	<u>\$2</u>	<u>\$102,071</u>

Notes

26. Adjustments to Budgetary Resources Available at the Beginning of the Year & Other Information - Statement of Budgetary Resources

Federal agencies are required to disclose additional information related to the Statement of Budgetary Resources (per OMB Bulletin 01-09, Form and Content of Agency Financial Statements.) The information for the fiscal years ended September 30, 2001 and September 30, 2000 were as follows (in millions):

	<u>2001</u>	<u>2000</u>
Net Amount of Budgetary Resources Obligated for Undelivered Orders	\$5,063	\$6,555
Available Borrowing and Contract Authority at the end of the period	\$5,729	\$5,715
Adjustments During the Reporting Period to Budgetary Resources, Available at the Beginning of the Year	\$62	\$258

27. Existence, Purpose, and Availability of Permanent, Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax and duty refunds, duty drawbacks, earned income tax credits, and child tax credits. These appropriations are not subject to budgetary ceilings established by Congress. Therefore, refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations used. Permanent indefinite authority is not stated as a specific amount and is available for an indefinite period of time.

Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity of Treasury. This presentation is appropriate because refunds are, in substance, a custodial revenue-related activity in that they are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Statement of Net Cost. Likewise, the resultant refunds of overpayments are not available for use by the Department in its operations. Consequently, to present refunds as an expense of the Department on the Statement of Net Cost with related appropriations used, would be inconsistent with the reporting of the related Federal tax revenue and would materially distort the costs incurred by the Department in meeting its strategic objectives.

The Department also receives two permanent and indefinite appropriations related to debt related activity. One is used to pay the interest on the public debt securities; the other is used to pay the redemptions of securities that have matured, been called, or are eligible for early redemption.

Additionally, the Department receives permanent and indefinite appropriations to make payments on behalf of the United States Government. These appropriations are provided to make payments to the Federal Reserve for services provided. They include appropriations provided to make other disbursements on behalf of the Federal Government including payments made to various individuals as the result of certain claims and judgement rendered against the United States.

28. Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

Included in cumulative results of operations for special funds is \$821 million that represents Treasury's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with services performed at certain small airports or other facilities, and to retain amounts needed to offset costs associated with collecting duties, taxes and fees for the Government of Puerto Rico. (The amount was \$857 million as of September 30, 2000.) These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. In addition, the Department is required to maintain \$30 million in its User Fees Account. Part of the passenger fees in the user Fees Account, totaling approximately \$640 million as of September 30, 2001 and September 30, 2000 is restricted by law in its use to offset specific costs incurred by the Department and are available to the extent provided in Appropriation Acts.

In the trust fund balance, \$87 million results from the Department's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by Treasury relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee. (The amount was \$110 million as of September 30, 2000.)

29. Collections of Federal Revenue

The Department collects the majority of Federal Revenue from income and excise taxes and duties on imported goods. Collection activity, by revenue type and tax year were as follows for the fiscal years ended September 30, 2001 and September 30, 2000 (in millions):

Revenue Type	Tax Year				2001 Collections
	2001	2000	1999	Pre-1999	
Individual Income & FICA Taxes	\$1,155,459	\$665,779	\$13,922	\$8,614	\$1,843,774
Corporate Income Taxes	99,271	79,766	762	6,669	186,468
Estate and Gift Taxes	615	25,088	1,205	2,340	29,248
Excise Taxes	49,195	18,612	86	300	68,193
Duties	19,655	0	0	0	19,655
Fees, and Licenses	855	1	0	0	856
Unemployment Taxes	5,059	1,891	33	81	7,064
Railroad Retirement Taxes	3,586	1,114	2	1	4,703
Federal Reserve Earnings	21,612	4,512	0	0	26,124
Fines, Penalties, Interest & Other	<u>1,987</u>	<u>694</u>	<u>0</u>	<u>0</u>	<u>2,681</u>
Total	<u>\$1,357,294</u>	<u>\$797,457</u>	<u>\$16,010</u>	<u>\$18,005</u>	<u>\$2,188,766</u>

Revenue Type	Tax Year				2000 Collections
	2000	1999	1998	Pre-1998	
Individual Income & FICA Taxes	\$1,132,303	\$612,514	\$11,562	\$7,890	\$1,764,269
Corporate Income Taxes	156,447	70,225	485	8,236	235,393
Estate and Gift Taxes	406	25,735	1,629	1,952	29,722
Excise Taxes	51,376	18,314	106	398	70,194
Duties	20,556	0	0	0	20,556
Fees, and Licenses	2,069	0	0	0	2,069
Unemployment Taxes	4,984	1,890	37	75	6,986
Railroad Retirement Taxes	3,619	1,139	1	3	4,762
Federal Reserve Earnings	25,089	7,204	0	0	32,293
Fines, Penalties, Interest & Other	<u>2,936</u>	<u>478</u>	<u>0</u>	<u>0</u>	<u>3,414</u>
Total	<u>\$1,399,785</u>	<u>\$737,499</u>	<u>\$13,820</u>	<u>\$18,554</u>	<u>\$2,169,658</u>

Amounts reported for Corporate Income Taxes collected in fiscal year 2001 include corporate taxes of \$5 billion for tax year 2001. (Similarly, amounts reported for Corporate Income Taxes collected in fiscal year 2000 include corporate taxes of \$7 billion for tax year 2000.) Individual income and FICA taxes, includes \$56 billion in payroll taxes collected from other federal agencies. Of this amount, \$12 billion represents the portion paid by the employers. (The comparable amounts for FY 2000 are \$47 billion in payroll taxes collected from other federal agencies and \$10 billion paid by the employers.)

30. Federal Tax Refund Activity

Refund activity, broken out by revenue type and by tax year, were as follows for the fiscal years ended September 30, 2001 and September 30, 2000 (in millions):

Revenue Type	Tax Year				2001
	2001	2000	1999	Pre-1999	Refunds
Individual Income & FICA Taxes	\$1,376	\$195,719	\$9,394	\$3,830	\$210,319
Corporate Income Taxes	1,260	14,813	8,213	14,299	38,585
Estate and Gift Taxes	7	244	368	305	924
Excise Taxes	339	402	60	137	938
Duties	425	225	70	212	932
Fees, and Licenses	2	0	0	0	2
Unemployment Taxes	3	87	13	30	133
Railroad Retirement Taxes	0	2	0	7	9
Total	<u>\$3,412</u>	<u>\$211,492</u>	<u>\$18,118</u>	<u>\$18,820</u>	<u>\$251,842</u>

Revenue Type	Tax Year				2000
	2000	1999	1998	Pre-1998	Refunds
Individual Income & FICA Taxes	\$998	\$148,507	\$8,582	\$3,282	\$161,369
Corporate Income Taxes	1,415	10,426	6,925	12,288	31,054
Estate and Gift Taxes	8	191	293	280	772
Excise Taxes	270	369	52	75	766
Duties	512	284	118	318	1,232
Fees, and Licenses	1	0	0	0	1
Unemployment Taxes	1	87	10	20	118
Railroad Retirement Taxes	0	2	3	6	11
Total	<u>\$3,205</u>	<u>\$159,866</u>	<u>\$15,983</u>	<u>\$16,269</u>	<u>\$195,323</u>

Individual income & FICA taxes includes EITC and child tax credit refunds. The EITC was originally authorized by the Tax Reduction Act of 1975 (Public Law 94-12) and made permanent by the Revenue Adjustment Act of 1978 (Public Law 95-600). The EITC is a special credit for taxpayers who work and whose earnings fall below the established allowance ceiling. Qualified taxpayers can receive partial credit in advance in each paycheck. In FY 2001 the Department issued \$26.1 billion in EITC refunds, of which \$72 million was applied to Advance EITC. An additional \$5.1 billion of EITC refunds were applied to reduce taxpayer liability. (In FY 2000, \$26.1 billion of EITC refunds were issued, \$81 million of which was applied to Advance EITC, and additional \$5.1 billion of EITC refunds were applied to reduce taxpayer liability.) The child credit was originally authorized by the Taxpayer Relief Act of 1997 (Public Law 105-34). The child tax credit is a special credit for taxpayers who work, whose earnings fall below the established allowance ceiling, and who have a qualifying child. In FY 2001 the Department issued \$972 million in child tax credit refunds. An additional \$19.6 billion of child tax credit refunds were applied to reduce taxpayer liability. (In FY 2000, \$809 million of child tax credit refunds were issued, and additional \$19.2 billion were applied to reduce taxpayer liability.)

Refunds and Drawbacks

As of September 30, 2001 and September 30, 2000, refunds and drawbacks owed by Treasury entities consisted of the following (in millions):

	<u>2001</u>	<u>2000</u>
Alcohol, Tobacco, and Firearms	\$11	\$10
Customs	108	224
Internal Revenue Service	<u>1,433</u>	<u>1,040</u>
Total	<u>\$1,552</u>	<u>\$1,274</u>

31. Amounts Provided to Fund the Federal Government

Revenue collected by the Department is deposited into the General Fund. The Department transferred approximately \$756 billion from the General Fund to Government Trust Funds (GTF), which are available for expenditure by the responsible program agencies. The Department is responsible for managing GTFs, investing all excess trust fund collections, and liquidating securities as funds are needed.

The GTFs are reported on the financial statements of the responsible program agencies.

For the fiscal years ended September 30, 2001 and September 30, 2000, distributions to the GTFs were as follows (in millions):

Trust Fund:	<u>2001</u>	<u>2000</u>
Federal Disability Insurance Trust Fund	\$75,341	\$70,755
Federal Hospital Insurance Trust Fund	157,855	150,546
Federal Old Age & Survivors Trust Fund	452,583	430,688
Unemployment Trust Fund	27,860	27,606
Highway and Mass Transit Trust Fund	31,453	34,960
Airport and Airway Trust Fund	9,077	9,930
Hazardous Superfund	6	5
Other	<u>2,054</u>	<u>1,987</u>
Total Trust Funds	<u>\$756,229</u>	<u>\$726,477</u>

Social Security Tax Collections

The amounts disclosed above for the Social Security Trust funds (Federal Disability Insurance Trust Fund, Federal Hospital Insurance Trust Fund, and Federal Old Age & Survivors Trust Fund) are based upon estimates provided by the Social Security Administration (SSA). Treasury reviews the estimates for reasonableness. SSA later certifies actual tax collections.

Excise Tax Collections

The Department estimates monthly excise tax collections utilizing various economic models. The Department also confers with the Council of Economic Advisors and the Office of Management and

Budget in developing these estimates. The estimated amounts are transferred to GTFs. Estimates are needed because taxpayers are not required by law to identify the specific taxes included in their payments. After taxpayers provide quarterly tax returns with the details of the specific taxes, IRS certifies actual collections. The Department then adjusts the GTFs for the differences between the estimates and collections.

The amounts disclosed above are based on actual collections for three quarters and estimates for the fourth quarter for those trust funds which receive excise tax collections (i.e. Highway and Mass Transit Trust Fund, Airport and Airway Trust Fund, and certain other trust funds).

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Part 4

MANAGEMENT CONTROLS

The Secretary's Letter of Assurance

In accordance with the provisions of the Government Management Reform Act of 1994, as well as with the Reports Consolidation Act of 2000, the Department of the Treasury has consolidated several statutorily-required reports into its Accountability Report. This is the fifth year the Department did not issue a separate report for the Federal Managers' Financial Integrity Act (FMFIA); instead, the results of the Department's evaluations under FMFIA for the period ending September 30, 2001 are included in this Accountability Report. Reporting under the Federal Financial Management Improvement Act (FFMIA) on the adequacy of financial management systems is also included in this section of the report.

Based on internal management evaluations, and in conjunction with the results of independent financial statement audits, the Department, except as noted below, can provide reasonable assurance that the objectives of Section 2 of FMFIA (internal controls) have been achieved. The Department, taken as a whole, is not able to provide reasonable assurance that the objectives of Section 4 of FMFIA (financial management systems) have been achieved. Similarly, due to the same weaknesses in financial management systems, the Department cannot state that it is in substantial compliance with FFMIA.

Departmentwide, there are 29 material weaknesses as of September 30, 2001. The majority of these are concentrated in the Internal Revenue Service (14), FMS (4) and Departmental Offices (4). Summary information on each material weakness is provided by bureau within this section of the Accountability Report.

The Department began FY 2001 having 32 material weaknesses. The net reduction of three material weaknesses resulted from seven actual closures and four new material weaknesses (two for IRS, and two for the Mint) being identified. These positive results have been made possible through: (1) a continued emphasis on management control program responsibilities throughout the Department; (2) the increased level of senior management attention given to these issues; and (3) the conscientious efforts by the bureaus to develop responsible plans for resolving weaknesses in a timely manner. The Department has been forthcoming in identifying its weaknesses and conscientious in developing corrective actions to resolve its new and existing challenges. I am confident that Treasury's progress will continue in FY 2002.

Sincerely,



Paul H. O'Neill

Federal Managers' Financial Integrity Act & Federal Financial Management Improvement Act Compliance

Overall Results

During FY 2001, Treasury had a net decrease of three material weaknesses. That is, while four new material weaknesses were identified during FY 2001, the Department, as a whole, was able to close seven weaknesses during the year. A total of 29 material weaknesses was outstanding as of September 30, 2001.

The management control objectives under FMFIA are to reasonably ensure that: (i) programs achieve their intended results; (ii) resources are used consistent with agency mission; (iii) programs and resources are protected from waste, fraud, and mismanagement; (iv) laws and regulations are followed; (v) continuity of operations planning in critical areas is sufficient to reduce risk to reasonable levels, and (vi) performance information is reliable.

FMFIA Section 2, Management Controls

Section 2 deficiencies deal with weaknesses in management controls within the agency. During FY 2001, three material weaknesses have been closed, and two new material weaknesses have been identified, leaving 20 unresolved at the end of FY 2001. Many of the unresolved items represent complex, systemic weaknesses, which by their nature require a protracted corrective action period.

FMFIA Section 4, Financial Management Systems

Section 4 deficiencies deal with weaknesses (non-conformances) in the agency's financial management systems. Four accounting systems non-conformances were resolved, and two new non-conformances were identified during FY 2001, leaving nine at the end of the fiscal year.

Federal Financial Management Improvement Act (FFMIA)

Among other things, FFMIA mandates that agencies "... implement and maintain financial management systems that comply substantially with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level." FFMIA also requires that remediation plans be developed for any entity that is unable to report substantial compliance with these requirements.

As of September 30, 2001, five Treasury bureaus (Internal Revenue Service, Financial Management Service, Mint, Office of the Comptroller of the Currency and U.S. Customs Service) are not in substantial compliance with these requirements. IRS and Customs have received approval from OMB to extend the 3-year time frame for correcting the deficiencies. The bureaus continue to make progress with the implementation of their remediation plans.

Summary of Open FMFIA Material Weaknesses and FFMIA Compliance As of September 30, 2001								
Bureau	Number of Material Weaknesses for FMFIA Section 2			Number of Material Instances of Non-Conformance For FMFIA Section 4			Grand Total (Sec 2 & Sec 4)	Substantial Compliance with FFMIA? (See footnotes 1 and 2)
	Carry over from Prior Years	New This Year	Total	Carry over from Prior Years	New This Year	Total		
ATF	0	0	0	0	0	0	0	Yes
BEP	0	0	0	0	0	0	0	Yes
BPD	0	0	0	0	0	0	0	Yes
CDFI	0	0	0	0	0	0	0	Yes
USCS	2	0	2	1	0	1	3	No
DO	1	0	1	1	0	1	2	Yes
DC Pension Funds	2	0	2	0	0	0	2	Yes
Exchange Stabilization Fund	0	0	0	0	0	0	0	Yes
EOAF	0	0	0	0	0	0	0	Yes
FLETC	1	0	1	0	0	0	1	Yes
FMS	3	0	3	1	0	1	4	No
Treasury Franchise Fund	0	0	0	0	0	0	0	Yes
IRS	9	2	11	3	0	3	14	No
Mint	0	0	0	0	2	2	2	No
OCC	0	0	0	1	0	1	1	No ¹
OTS	0	0	0	0	0	0	0	Yes
USSS	0	0	0	0	0	0	0	Yes ²
Total	18	2	20	7	2	9	29	12 5

Recapitulation of Material Weaknesses (MWs): Section 2 Section 4 Total

Balance at the Beginning of FY01:	21	11	32
New MWs Identified During the FY01:	2	2	4
Closed during the FY01:	<u>-3</u>	<u>-4</u>	<u>-7</u>
Balance at the End of FY01:	20	9	29

¹ The OCC worked diligently during FY 2001 to correct the material weakness and FFMIA non-compliance which it carried at the start of the fiscal year. This effort included the implementation of controls to compensate for limitations in its prior financial management system, as well as the development and installation of a new financial management system. The new system was officially implemented on October 1, 2001, after all actions to correct the material weakness and implement the FFMIA remediation plan had been completed as of September 30, 2001.

²USSS has closed all corrective actions of its last Section 4 material weakness, pending validation.

Management Controls

<u>SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES</u> <u>AS OF SEPTEMBER 30, 2001</u>		
<u>BUREAU</u>	<u>DESCRIPTION OF MATERIAL WEAKNESS</u>	<u>REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION</u>
CUSTOMS-94-02	Inability to timely restore critical systems; Lack of a disaster recovery plan.	Finish upgrading telecommunications facilities and establish an operational hot site capability. Target Date: 9/2002.
CUSTOMS-95-01	Inappropriate access to ADP files.	Accredit the legacy administrative systems and complete migration to the new change control tool. Target Date: 12/2002.
DO-98-04	Policy Guidance and oversight of bureaus on EDP general controls need to be strengthened.	Policy guidance (Treasury Security Manual) is being updated and oversight activities are being enhanced. Target Date: 7/2003
DC Pension-98-03	There are shortcomings in the District's Office of Pay and Retirement Services.	Issue revised Summary Plan Descriptions, and work on the Police and Firefighters Retirement Plan. Target Date: 8/2002.
DC Pension--98-04	The District's pension system contains overall unacceptable risk and must be replaced.	Implement new pension/payroll replacement system to process benefits. Target Date: 8/2002.
FLETC-91-01	An environmental problem exists at the FLETC Glynco, Georgia outdoor firearms ranges.	Complete the environment restoration of the area and reconstruction of the Outdoor Firearms Ranges. Target Date: 4/2005.
FMS-01-01 (formerly 99-9, 98-06)	Unable to properly identify, report and eliminate transactions between Federal Government entities.	FMS completed its planned corrective actions but is holding this open until GAO validates. Target Date: TBD
FMS-01-02 (formerly 99-10, 98-07)	Cannot ensure that the information in the financial statements of the U.S. Government is properly and consistently compiled.	FMS completed its planned corrective actions but is holding this open until GAO validates. Target Date: TBD
FMS-01-03 (formerly 99-11, 98-08)	Does not yet have a process to obtain information to effectively reconcile the reported excess of revenue over net cost and the reported unified budget surplus.	FMS completed its planned corrective actions but is holding this open until GAO validates. Target Date: TBD
IRS-83-01	Weaknesses in the procedures and control over the information, use and accountability of capitalized property.	Replace IRS' current inventory system with a modernized system. Implement the Prototype Information Technology Asset Management System (ITAMS). Target Date: 1/2005.
IRS-88-01	Resolving IRS' workload of Tax Assessments and prioritizing Collectible Assessments.	Advance development and installation of the Examination Customer Relationship Management (CRM) Systems to improve case management. Target Date: 4/2004.
IRS-94-03	A material weakness exists in the Internal Controls over Telecommunications Costs.	Implement new procedures to focus on potential waste, fraud, and abuse of telecommunications resource. Target Date: 4/2002
IRS-95-03	Tax Processing Systems need to be replaced.	Phased Implementation of new systems to support the customer service and correspondences. Target Date: 2/2010.

SECTION 2 SUMMARY OF PENDING MATERIAL INTERNAL CONTROL WEAKNESSES
AS OF SEPTEMBER 30, 2001

<u>BUREAU</u>	<u>DESCRIPTION OF MATERIAL WEAKNESS</u>	<u>REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION</u>
IRS-97-02	Sensitive Systems lacks Certification and Accreditation.	The Cyber Security office will implement an Intranet-based commercial off-the-shelf product for use in certification and accreditation. Target Date: 8/2002.
IRS-97-03	Field Office Security (formerly District Office Security).	Physical security, logical security, and continuity of operations improvements are being implemented. Target Date: 1/2004
IRS-97-04	Campus Security (formerly Service Center Security)	Various improvements in processing controls are being implemented. Target Date: 1/2004
IRS-97-05	Other IRS Facility-Type Security.	Various physical, logical securities, and procedural improvements in controls are being implemented. Target Date: 1/2004.
IRS-99-01	Earned Income Tax Credit (EITC) processing.	Enhanced systems support is being implemented. Target Date: 3/2004.
IRS-01-01	Computer Center Security	Complete security enhancement, install the backup equipment and software, and develop implementation plan to include testing enhanced disaster recovery capability. Target Date: 1/2003
IRS-01-02	Measuring Tax Payer Compliance.	TBD*

* To be determined later

<u>SECTION 4 SUMMARY OF PENDING MATERIAL INSTANCES OF NON-CONFORMANCE AS OF SEPTEMBER 30, 2001</u>		
BUREAU	<u>DESCRIPTION OF MATERIAL NON-CONFORMANCES</u>	<u>REMEDIAL ACTIONS AND KEY TARGET DATES FOR CORRECTION</u>
CUSTOMS-93-01	Customs Core Financial Systems do not provide complete and accurate data for preparation of audited financial statements.	Implementing full software deployment of SAP R/3 package will provide a fully integrated accounting system. Target Date: 10/2004
DO-00-01	Treasury Communications System (TCS) has no emergency back-up facility.	The Office of Customer Service, Infrastructure and Operations (OCSIO) is working with the TCS prime contractor to solicit proposals from existing TCS subcontractors for emergency backup services and physical security. Target Date: TBD*
FMS-00-01 (formerly FMS-99-02, 98-09)	FMS' General Computer Control weaknesses exist at each of the data centers.	Track implementation of GOALS II, Data Encryption system, and Secure Payment System (SPS). Target Date: 12/2002.
IRS-94-01	Erroneous Restricted Interest: Current system limitations require manual computations.	Management is currently testing and developing the COTS product DMI Interest Net Software for interest adjustments and calculations. Target Date: 4/2005
IRS-95-01	Detailed transactional data is needed to support custodial financial reporting of revenue.	Implement the Administrative Management Project and the Human Resources Project; and Develop multi-phased Payment Information Data Base projects. Target Date: 3/2009
IRS-99-01	IRS needs to improve the annual financial statement preparation and audit processes.	Validate and institutionalize the Project Cost Accounting system process; and implement the new Integrated Financial System (IFS). Target Date: 6/2005
Mint-01-01	Mint has an administrative control problem in conjunction with operating its Consolidated Information System (COINS).	TBD*
Mint-01-02	Another weakness not yet clearly described in the System Security area.	TBD*
OCC-99-02	OCC's financial management systems do not comply with Federal financial management systems requirements.	The OCC worked diligently during FY 2001 to correct the material weakness and FFMIA non-compliance which it carried at the start of the fiscal year. This effort included the implementation of controls to compensate for limitations in its prior financial management system, as well as the development and installation of a new financial management system. The new system was officially implemented on October 1, 2001, after all actions to correct the material weakness and implement the FFMIA remediation plan had been completed as of September 30, 2001.

* To be determined later.

SUMMARY OF MANAGEMENT REPORT ON FINAL ACTIONS ON AUDIT RECOMMENDATIONS

Introduction

The Inspector General Act Amendments of 1988 (the Act), Public Law 101-504, require that the Inspectors General and the Secretaries of Executive Agencies and Departments submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential benefits. The Treasury Office of the Inspector General (OIG) continues to issue its semiannual reports as standalone documents. Consistent with the Reports Consolidation Act, the Department does not produce the standalone Secretary's Semiannual Report to Congress and instead consolidates and annualizes all relevant information for inclusion in the Accountability Report. In addition, the Treasury Inspector General for Tax Administration (TIGTA) was created by statute in January 1999 to perform the internal audit function for the Internal Revenue Service, with the OIG having continuing responsibilities regarding the rest of the Treasury organization. The information contained in this section of the Accountability Report represents a consolidation of information provided separately by the OIG and TIGTA organizations.

Departmentwide Management Control Program Activities

During FY 2001, the Department continued its efforts to improve both the general administration of management control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the OIG and TIGTA organizations. Various short-term improvements were made to the Inventory Tracking and Closure System (ITCS), which is used for tracking all open audit findings, and the range of management information reports extracted from that system was increased significantly. Departmental oversight of bureau management control program activities, as well as communication and coordination with the bureaus in general, was strengthened through a combination of: (1) on-site visits/reviews with bureau control personnel; (2) periodic management control program forums involving key persons from the OIG, TIGTA, all bureaus and program areas, and the Department; and (3) the issuances of Management Control Program Quarterly Reports which focus on significant control issues throughout the organization and which are distributed to the Deputy Secretary, bureau heads, bureau CFOs and other key personnel. Finally, with respect to the resolution of recommendations in audit reports that identify monetary benefits, the Department regularly reviews progress made by the bureaus in realizing those benefits, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations being tracked.

Included in the summary figures are a number of factors that are generally grouped into three categories: Disallowed Costs, Better Used Funds, and Revenue Enhancements.

Disallowed Costs - It is a questioned cost that management has sustained, or has agreed would not be charged to the Government by a contractor.

Funds Put to Better Use - It is sometimes referred to as "Better Used Funds" which are amounts cited in an audit report recommendation which could, according to the audit report, be used more efficiently if management were to take actions to implement and complete the recommendation. Possible planned corrective actions which may be used to reallocate these funds more efficiently might involve: reducing outlays to contractors; avoiding unnecessary expenditures noted in pre-award reviews of contract agreements, or avoiding costs with the implementation of recommended operational improvements. De-obligating funds from programs or operations that are not as efficient or productive as they once were or were planned to be, as well as implementing any other savings which are specifically identified, can also be classified as "Better Used Funds."

Revenue Enhancements - A revenue enhancement is an action recommended in an audit report which would, if implemented, enhance the General Fund receipts of the Federal Government, usually without having any budgetary impact on any of the Treasury Department's appropriations. These revenue enhancements are a key element in the budgetary issues of the revenue collecting bureaus (IRS, ATF, and USCS). If a bureau relies on the revenue collected for maintenance of those revenue producing areas, the revenue enhancements that are implemented can have a significant impact on the ability of these areas to operate efficiently while still providing the services that generate the revenue to the bureau.

Report Summary and Highlights

The statistical data in the following summary table and charts represents the Department's audit report activity for the period from October 1, 2000 through September 30, 2001. The data reflects information on reports that identified potential monetary benefits that were issued by the OIG, as well as those issued by TIGTA.

AUDIT REPORT ACTIVITY WITH POTENTIAL MONETARY BENEFITS FOR WHICH MANAGEMENT HAS IDENTIFIED CORRECTIVE ACTIONS (OIG and TIGTA) October 1, 2000 through September 30, 2001 (Dollars in Millions)								
	Disallowed Costs		Better Used Funds ¹		Revenue Enhancements ²		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Reports	Dollars
Beginning Balance	7*	\$.6*	13*	\$283.9*	7*	\$395.3*	27*	\$679.8*
New Reports	9	2.9	14	26.5	16	678.3	39	707.7
Total	16	3.5	27	310.4	23	1,073.6	66	1,387.5
Reports Closed	(8)	(3.0)	(6)	(52.2)	(8)	(525.7)	(22)	(580.9)
<i>a. Realized or Actual</i>	(3)	(1.1)	(2)	(17.0)	(4)	(356.9)	(9)	(375.1)
<i>b. Unrealized or Written off</i>	(5)	(1.9)	(4)	(35.2)	(4)	(168.8)	(13)	(205.8)
Ending Balance	8	\$.5	21	\$258.2	15	\$547.9	44	\$806.6

*Revised to reflect adjusted report numbers/dollar amounts from the end of September 30, 2000.

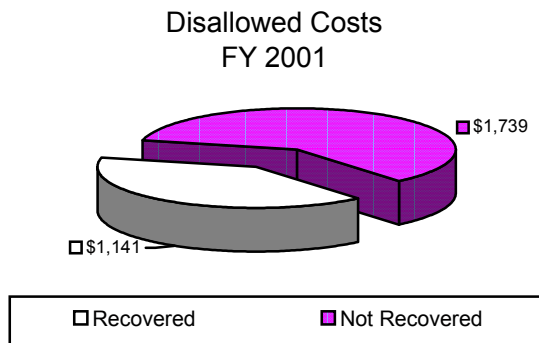
¹ This category excludes one report, projecting an additional \$13 billion, with which IRS management disagrees with TIGTA. It does include a report of \$28.8 million written off, with which TIGTA does not agree with IRS.

² This category include two reports of \$34.5 million written off, with which TIGTA does not agree with IRS. It excludes eleven reports, projecting an additional approximately \$14.1 billion, with which IRS does not agree with TIGTA. The Department will work with IRS and TIGTA to resolve all issues involving disagreements, and will take appropriate actions with all deliberate speed.

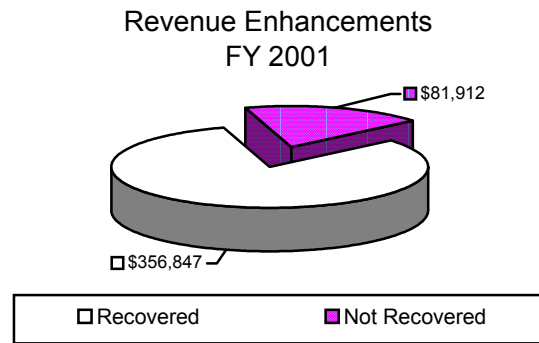
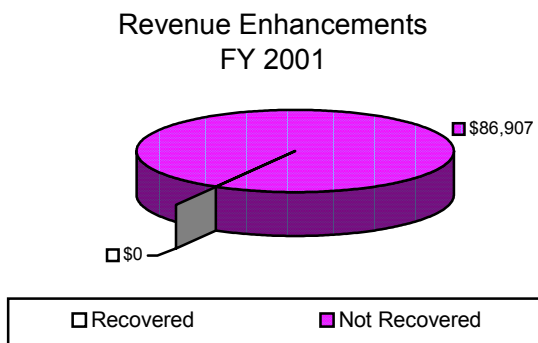
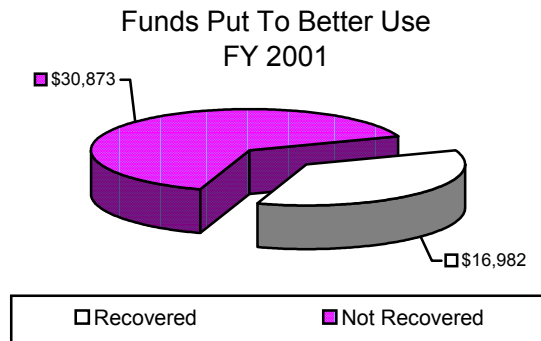
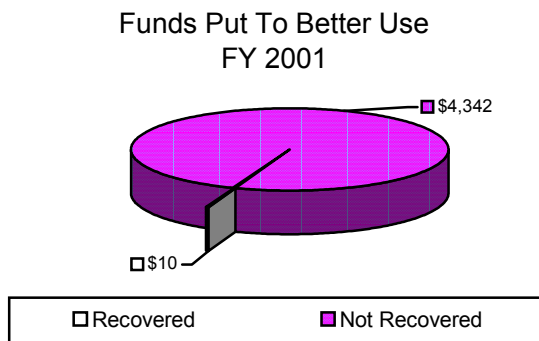
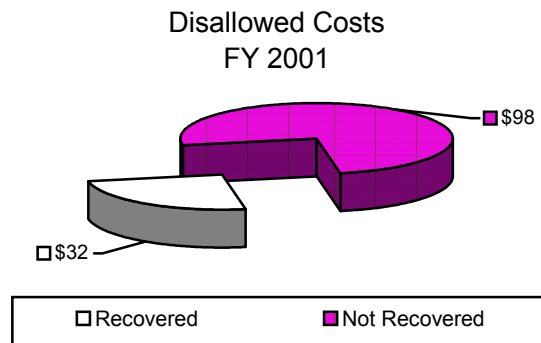
As shown, there were **27** reports at the beginning of the period requiring action, with associated potential benefits of **\$679.8 million**. **39** new reports were issued, with an associated dollar amount of **\$707.7 million**. Final/partial actions were taken on **22** reports during the period, with an associated dollar amount of **\$580.9 million**, which left an ending balance of **44** reports and an associated dollar amount of **\$806.6 million** still requiring management action.

The following graphs present the summary results for FY 2001 of how much of the projected monetary benefits have been realized and how much have not been realized and, therefore, written off. IRS' data as reported by TIGTA are separately depicted.

For All Bureaus except IRS (Amounts in \$ thousands)



For IRS only (Amounts in \$ thousands)

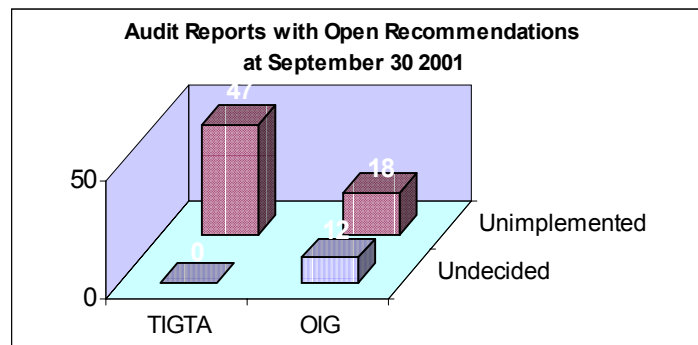
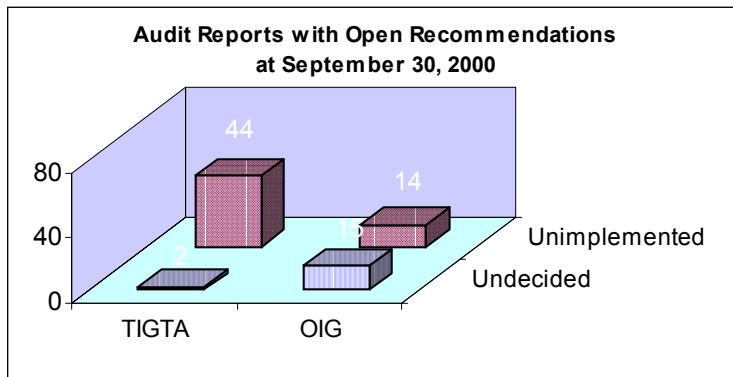


Ending Balance – Supplemental Information

There are 8 OIG reports identifying \$94.7 million in potential benefits which have remained undecided by bureau management for more than six months. The Department is actively working with both the bureaus and the OIG to verify the continuing validity of the original recommendations and to ensure that, where appropriate, the bureaus remove the items from the undecided category and develop implementation action plans.

Undecided Audit Recommendations and Significant Unimplemented Recommendations

The following charts provide a snap shot of the audit reports with open recommendations and significant unimplemented recommendations for OIG and TIGTA at September 30, 2001 and September 30, 2000, respectively.



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Part 5

SUPPLEMENTAL INFORMATION

Introduction

This section provides the Required Supplemental Information described in the Office of Management and Budget Bulletin 97-01, as amended, Form and Content of Agency Financial Statements. Required Other Accompanying Information on tax burden and Prompt Payment Act compliance are also provided.

Note A. Segment Information

Franchise Fund

The Department of Treasury's Franchise Fund is a fee-for-service organization that is fully reimbursable and competitive. The fund currently consists of Twelve business activities – Treasury Agency Services, the Federal Quality Consulting Group, Administrative Resource Center (ARC), Inspector General Auditor Training Institute, and eight former Cooperative Administrative Support Units (CASU) now operating as Treasury Franchise Businesses Activities.

Treasury Agency Services, Federal Quality Consulting Group, Administrative Resource Center, and Inspector General Auditor Training Institute improve the quality of Government financial management by providing individualized accounting cross-servicing, financial systems consulting, financial management consulting, procurement services, financial education and training services.

Some of the major customers include: Department of Army, Department of Navy, Department of Justice, Department of Air Force, Office of the Secretary of Defense and various other Executive department's and agencies.

(In millions):

Franchise Fund	Amounts
Fund Balance with Treasury	\$54
Accounts Receivable	31
Property, Plant and equipment	4
Other Assets	<u>0</u>
Total Assets	<u>\$89</u>
Accounts Payable	\$21
Other Liabilities	<u>49</u>
Total Liabilities	70
Cumulative Results of Operations	<u>19</u>
Total Liabilities and Net Position	<u>\$89</u>
Total Costs	\$218
Exchange Revenue	221
Other Financing Sources	<u>2</u>
Excess of Revenues and Financing Sources over Costs	<u>\$5</u>

Working Capital Fund

The Departmental Office's Working Capital Fund is a fee-for-service organization that is fully reimbursable.

The fund presently offers the following program services to various Treasury bureaus: telecommunications, payroll/personnel systems, printing and other.

(In millions):

Working Capital Fund	Amounts
Fund Balance with Treasury	\$190
Accounts Receivable	30
Property, Plant and equipment	17
Other Assets	<u>1</u>
Total Assets	<u>\$238</u>
Accounts Payable	\$39
Other Liabilities	<u>199</u>
Total Liabilities	238
Cumulative Results of Operations	<u>0</u>
Total Liabilities and Net Position	<u>\$238</u>
Total Costs	\$269
Exchange Revenue	269
Other Financing Sources	<u>0</u>
Excess of Revenues and Financing Sources over Costs	<u>\$0</u>

Note B. Other Claims for Refunds and Drawbacks

The Department has estimated that \$1.3675 billion which may be paid out as other claims for tax refunds and drawbacks. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the Federal courts or internally. The total estimated payout (including principal and interest) for claims pending judicial review by the Federal courts is \$7.7 billion and by Appeals is \$13.6 billion. Although these refund claims have been deemed to be probable, they do not meet the criteria in SFFAS No. 5 for reporting the amounts in the Balance Sheet or for disclosure in the notes to the financial statements. However, they meet the criteria in SFFAS No. 7 for inclusion as supplemental information.

Note C. Unpaid Assessments

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition as discussed in the Note 1 to the financial statements. Although compliance assessments and write-offs are not considered receivables under Federal accounting standards, they represent legally enforceable claims of the Federal government. There is, however, a significant difference in the collection potential between compliance assessments and receivables.

The components of the total unpaid assessments at September 30, 2001 were as follows in millions:

Gross Unpaid Assessments	<u>\$239,000</u>
Less Compliance Assessments and Write-offs	<u>(159,000)</u>
Net Amount	<u>\$80,000</u>

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties, totaling \$14 billion, assessed against officers and directors of businesses who were involved in the non-remittance of federal taxes withheld from their employees. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

U. S. Customs Service (Customs)

Customs reviews selected documents to ensure all duties, taxes, and fees owed to the Federal government are paid and to ensure regulations are followed. If Customs believes duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. Customs regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. Work in progress will continue until all avenues to file a protest have expired or an agreement is reached. During this protest period, Customs does not have a legal right to the importer/violator's assets, and consequently, Customs recognizes accounts receivable only when the protest period has expired or an agreement is reached. For Fiscal Year 2001, Customs had a legal right to collect \$1 billion of receivables. In addition, there is an additional \$2.4 billion representing records still in the protest phase.

Internal Revenue Service (IRS)

The unpaid tax assessments balance was about \$80 billion as of September 30, 2001. This unpaid assessments balance represents assessments resulting from taxpayers filing returns without sufficient payment; as well as from the Service's enforcement programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. A significant portion of this balance is not considered a receivable. Also, a substantial portion of the amounts considered receivables is largely uncollectible.

Under Federal accounting standards, unpaid assessments require taxpayer or court agreement to be considered Federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered Federal taxes receivable. Assessments with little or no future collection potential are called write-offs.

Of the \$239 billion balance of unpaid assessments, \$137 billion represents write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt or defunct taxpayer's, including many failed financial institutions liquidated by the Federal Deposit Insurance Corporation (FDIC) and the former Resolution Trust Corporation (RTC). As noted above, write-offs have little or no future collection potential, but statutory provisions require that these assessments be maintained until the statute for collection expires. In addition, \$22 billion of the unpaid assessment balance represents amounts that have not been agreed to by either the taxpayer or a court. Due to the lack of agreement, these compliance assessments are less likely to have future collection potential than those unpaid assessments that are considered Federal taxes receivable.

Note D. Heritage/Stewardship Property Plant and Equipment

These assets include the Treasury Department building and the Treasury Annex building. The Department also has four multi-use heritage assets located in Puerto Rico.

	Heritage Assets	Land
Beginning Balance	5	1
Additions	0	0
Withdrawals	<u>0</u>	<u>0</u>
Ending Balance	<u>5</u>	<u>1</u>

Note E. Statement of Budgetary Resources Dis-aggregated by Major Accounts

The following table represents a dis-aggregation of The Department of the Treasury's major budget accounts, which are aggregated in the Statement of Budgetary Resources.

Budgetary Resources	Appropriated Funds	Revolving Funds	Trust Funds	Other Funds	Total
Budget Authority	\$398,438	\$60	\$194	\$615	\$399,307
Unobligated Balance	135,277	20,960	3,376	798	160,411
Spending Authority from Offsetting Collections Earned	(6,570)	6,928	423	6	787
Adjustments	(115,381)	(2,987)	13	15	(118,340)
Total Budgetary Resources	<u>\$411,764</u>	<u>\$24,961</u>	<u>\$4,006</u>	<u>\$1,434</u>	<u>\$442,165</u>
Status of Budgetary Resources					
Obligations Incurred	\$397,582	\$6,029	\$915	\$607	\$405,133
Unobligated Balances Available	13,825	18,694	3,088	186	35,793
Unobligated Balances Not Available	357	238	3	641	1,239
Total Budgetary Resources	<u>\$411,764</u>	<u>\$24,961</u>	<u>\$4,006</u>	<u>\$1,434</u>	<u>\$442,165</u>
Outlays					
Obligations Incurred	\$397,582	\$6,029	\$915	\$607	\$405,133
Spending Authority from Offsetting Collections and Adjustments	6,255	(6,971)	(436)	(21)	(1,173)
Obligated Balance, Net-Beginning of the Period	6,761	960	205	286	8,212
Obligated Balance Transferred, Net	0	0	0	0	0
Obligated Balance, Net-End of Period	(7,134)	(899)	(194)	(242)	(8,469)
Total Outlays	<u>\$403,464</u>	<u>(\$881)</u>	<u>\$490</u>	<u>\$630</u>	<u>\$403,703</u>

Note F. Deferred Maintenance

In FY 2001, the Department reported \$11 million in deferred maintenance on general property plant and equipment. This amount represents deferred maintenance on vehicles, vessels, and buildings and structures owned by the Department.

As reported, Treasury bureaus use a specific methodology in determining deferred maintenance. This procedure includes reviewing equipment, building and other structure logistic reports. Upon completion of this step, logistic personnel use a condition assessment survey to determine the status of referenced assets. This procedure is performed in accordance with the Statement of Federal Financial Accounting Standards No. 6 guidelines. A five level rating scale (excellent, good, fair, poor and very poor) is used for assessment purposes. Bureau logistic personnel subsequently identify maintenance not performed as scheduled and establish future performance dates. A summary of FY 2001 deferred maintenance is as follows (in millions):

	Deferred Maintenance	Asset Condition for Deferred Maintenance Only
Building & Structures	\$9	Poor to Fair
Equipment	2	Poor to Fair
Heritage Assets	0	
Stewardship Land	<u>0</u>	
Total	<u>\$11</u>	

Note G. Intra-governmental Assets, Liabilities, Revenue & Costs, and Transfers In/Out

Note G(1) - Intra-governmental Assets (In Millions \$)

Partner Agency	Due from the General Fund	Loans & Related Interest Receivable	Advance to the Black Lung Trust Fund	Accounts Receivable and Related Interest	Other
9900-General Fund	\$5,821,209	\$0	\$0	\$0	\$15
0000-Unknown	0	0	0	1	0
0400-Government Printing Office	0	0	0	0	3
1100-Exec. Office of the President	0	1,754	0	0	0
1200-Department of Agriculture	0	80,485	0	87	0
1300-Department of Commerce	0	196	0	1	0
1400-Department of the Interior	0	1,420	0	56	0
1500-Department of Justice	0	20	0	36	3
1600-Department of Labor	0	0	7,254	4	0
1700-Department of the Navy	0	956	0	76	0
1800-United States Postal Service	0	11,388	0	1	-1
1900-Department of State	0	0	0	2	0
2100-Department of the Army	0	0	0	42	0
2700-Federal Communications Commission	0	6,110	0	0	0
2800 Social Security Administration	0	0	0	2	0
3300-Smithsonian Institution	0	20	0	0	0
3400-International Trade Commission	0	0	0	0	0
3600-Department of Veterans Affairs	0	1,917	0	23	0
4700-General Services Administration	0	2,442	0	83	4
4800-Independent Agencies inc. Navajo-Hopi	0	0	0	0	2
5100 Federal Deposit Insurance Corporation	0	0	0	1	0
5600 Central Intelligence Agency	0	0	0	1	0
5700-Department of the Air Force	0	0	0	285	0
5800-Federal Emergency Manage Agency	0	612	0	1	0
6000-Railroad Retirement Board	0	5,102	0	0	0
6400-Tennessee Valley Authority	0	150	0	0	0
6800-Environmental Protection Agency	0	31	0	0	0
6900-Department of Transportation	0	820	0	4	0
7100-Overseas Private Invest Corp	0	58	0	0	0
7200-Agency for International Development	0	2	0	0	0
7300-Small Business Administration	0	10,855	0	0	0
7500-Dept of Health & Human Services	0	-1	0	11	0
7600-Independent Agencies Inc.	0	0	0	1	0
8300-Export-Import Bank of the United States	0	7,045	0	0	0
8600-Dept of Housing & Urban Development	0	9,238	0	1	0
8900-Department of Energy	0	2,722	0	1	0
9100-Department of Education	0	77,486	0	0	0
9500-Independent Agencies Inc. NTSB	0	50	0	0	0
9600-U.S. Army Corps of Engineers	0	31	0	21	0
9700-Office of the Sec of Defense Agencies	0	2,189	0	5	0
Totals	<u>\$5,821,209</u>	<u>\$223,098</u>	<u>\$7,254</u>	<u>\$746</u>	<u>\$26</u>

On the Department's Balance Sheet, "Due to the General Fund" is netted against "Due from the General Fund." See Note G(2).

Fund balance with Treasury at September 30, 2001 was \$56,645 million.

Note G(2) - Intra-governmental Liabilities (In Millions \$)

Partner Agency	Due to the General Fund	Federal Debt & Related Interest (BPD only)	Loans Payable & Related Interest	Other
9900-General Fund	\$293,284	\$0	\$0	\$312
0000-Unknown	0	16	0	45
0300-Library of Congress	0	603	0	0
0900-Other Legislative Branch	0	46	0	0
1000-The Judiciary	0	567	0	0
1100-Exec. Office of the President	0	2	0	1
1200-Department of Agriculture	0	30	0	2
1300-Department of Commerce	0	2	0	0
1400-Department of the Interior	0	3,722	0	0
1500-Department of Justice	0	838	0	22
1600-Department of Labor	0	103,977	0	184
1700-Department of the Navy	0	10	0	9
1800-United States Postal Service	0	1,258	0	0
1900-Department of State	0	11,389	0	14
2100-Department of the Army	0	3	0	1
2200-Resolution Trust Corporation	0	0	0	0
2300-United States Tax Court	0	8	0	0
2400-Office of Personnel Management	0	566,706	15,337	76
2500-National Credit Union Administration	0	4,795	0	0
2800-Social Security Administration	0	1,188,429	0	2
3600-Department of Veterans Affairs	0	14,298	0	2
4700-General Services Administration	0	0	0	13
4800-Independent Agencies inc. Navajo-Hopi Reloc	0	0	0	5
5100-Federal Deposit Insurance Corporation	0	45,242	0	0
5700-Department of the Air Force	0	1	0	1
5900-National Foundation on the Arts	0	1	0	0
6000-Railroad Retirement Board	0	20,789	0	0
6800-Environmental Protection Agency	0	5,503	0	0
6900-Department of Transportation	0	40,436	0	0
7100-Overseas Private Investment Corporation	0	3,525	0	0
7400-American Battle Monuments Commission	0	97	0	0
7500-Department of Health & Human Services	0	244,940	0	45
7600-Independent Agencies Inc. National Park Service	0	5	0	0
7800-Farm Credit	0	1,715	0	0
8000-National Aeronautics & Space Admin.	0	17	0	0
8400-Armed Forces Retirement Home	0	100	0	0
8600-Department of Housing & Urban Development	0	23,980	0	0
8800-National Archives & Records Administration	0	16	0	0
8900-Department of Energy	0	15,362	0	0
9100-Department of Education	0	0	0	21
9500-Independent Agencies Inc. NTSB	0	682	0	1
9600-U.S. Army Corps of Engineers	0	2,254	0	1
9700-Office of the Secretary of Defense Agencies	0	170,673	0	13
Totals	<u>\$293,284</u>	<u>\$2,472,037</u>	<u>\$15,337</u>	<u>\$770</u>

On the Department's Balance Sheet, "Due to the General Fund" is netted against "Due from the General Fund." See Note G(1).

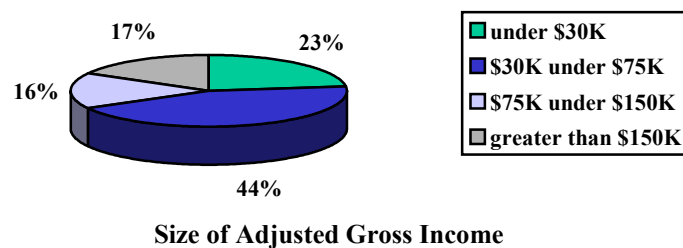
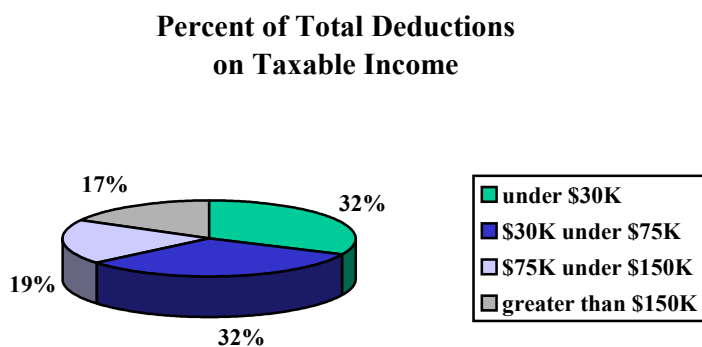
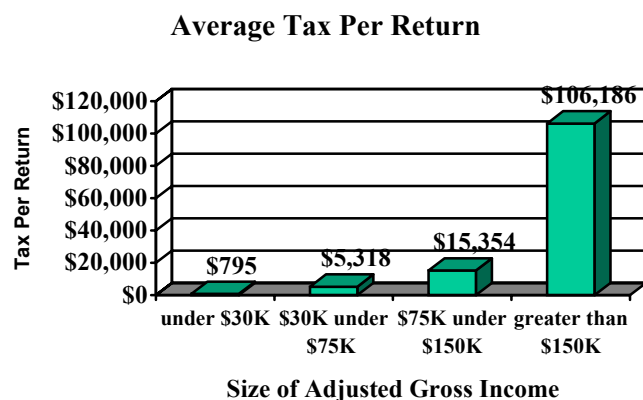
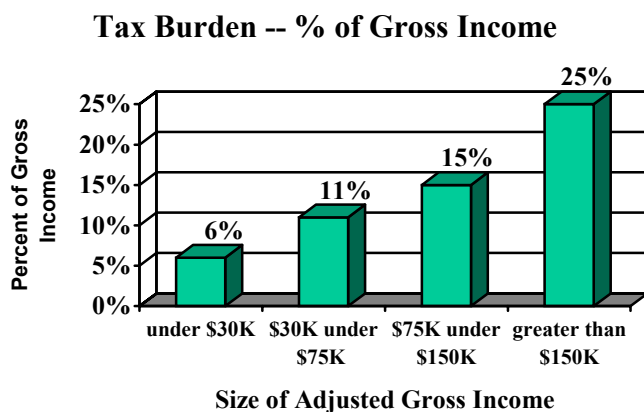
**Note G(3) - Intra-governmental Amount
Non-Exchange Revenue (In Millions \$)
(Transfers IN/ OUT)**

Partner Agency	IN	OUT
9900-General Fund	\$290	\$255,284
1500-Department of Justice	34	0
1700-Department of the Navy	8	0
2100-Department of the Army	3	0
4800-Independent Agencies Inc. Navajo-Hopi	1	0
7600-Independent Agencies Inc. National Park Service	0	5
Totals	<u>\$336</u>	<u>\$255,289</u>

OMB Bulletin No. 97-01, Form and Content of Agency Financial Statements, requires agencies with earned revenues from trade transactions (net of intra-entity activity) greater than \$500 million to report such intra-governmental revenue by trading partner. The Department of Treasury did not have earned revenues from trade transactions greater than \$500 million for fiscal year 2001.

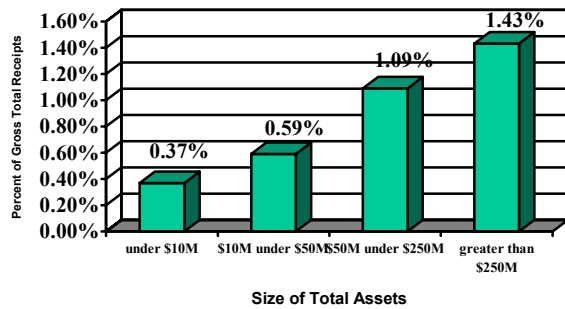
Other Accompanying Information – Tax Burden

Individual Income Tax Returns -- Tax Year 1999 Data

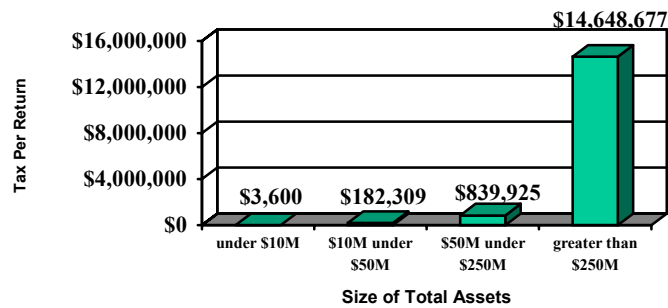


Corporation Income Tax Returns -- Tax Year 1998 Data

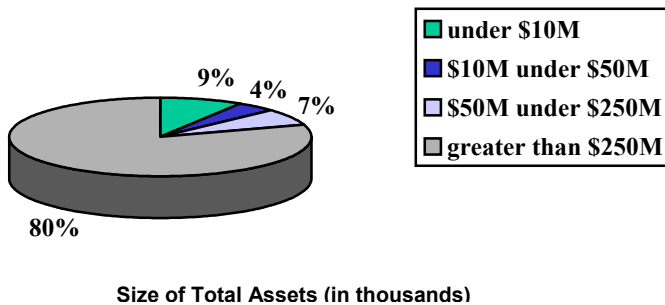
Tax Burden % of Gross Income



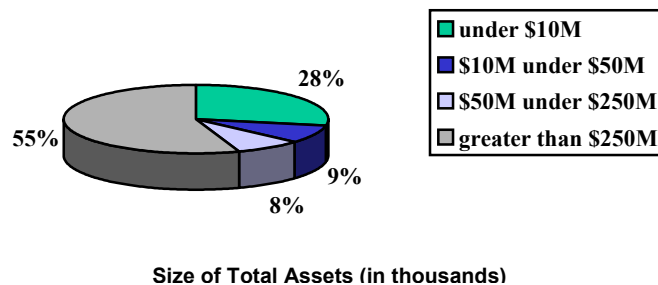
Average Tax Per Return



Percent of Total Deductions on Taxable Income



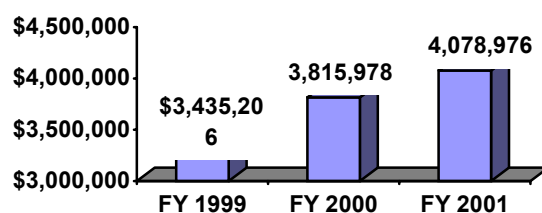
Percent of Total Credits Against Tax Liability



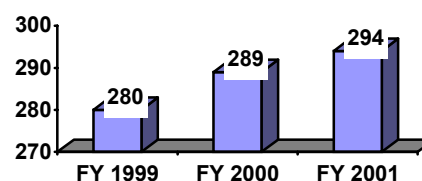
PROMPT PAYMENT

The Prompt Payment Act requires Federal agencies to make timely payments to vendors for supplies and service, to pay interest penalties when payments are made after the due date, and to take cash discounts only when they are economically justified. Treasury bureaus report Prompt Payment data on a quarterly basis to the Department, and periodic quality control reviews are conducted by the bureaus to identify potential problems.

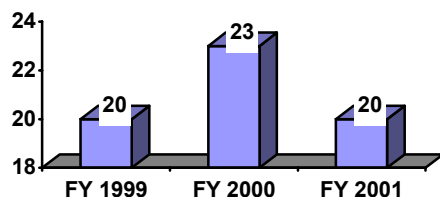
Total Invoices Paid
Dollar Amount (in Thousands)



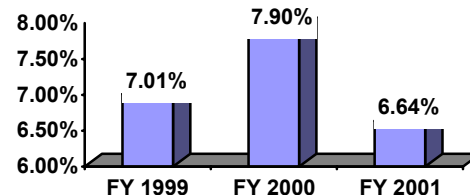
Total Invoices Paid
Number (in Thousands)



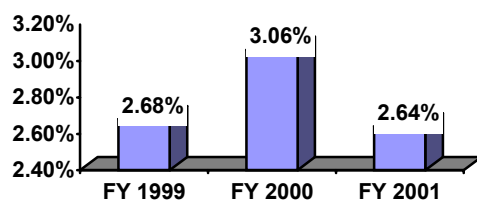
Total Invoices Paid Late
Number (in Thousands)



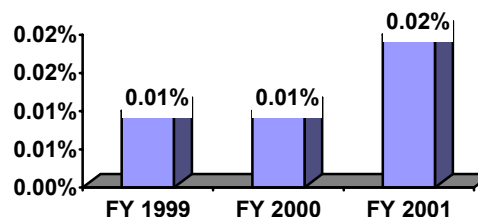
Percentage of Invoices Paid Late



Percentage of Number of Interest Penalties Paid



Percentage of Dollar Amount of Interest Penalties Paid



Acronyms

ATF	Bureau of Alcohol, Tobacco and Firearms
BEP	Bureau of Engraving and Printing
BPD	Bureau of Public Debt
CDFI	Community Development and Financial Institutions
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act
CIRB	Capital Investment Review Board
CSRS	Civil Service Retirement System
DCP	Office of D.C. Pensions
EFT	Electronic Funds Transfer
EITC	Earned Income Tax Credit
EOAF	Executive Office of Asset Forfeiture
ESF	Exchange Stabilization Fund
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FCDA	Foreign Currency Denominated Assets
FDIC	Federal Deposit Insurance Corporation
FERS	Federal Employees' Retirement System
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Program
FLETC	Federal Law Enforcement Training Center
FICA	Federal Insurance Compensation Act
FINCEN	Financial Crimes Enforcement Network
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FTO	Fine Troy Ounce
GAAP	Generally Accepted Accounting Principles
GAS	Government Account Series
GDP	Gross Domestic Product
GPRA	Government Performance and Results Act
GTF	Government Trust Fund
IRS	Internal Revenue Service
ITCS	Inventory Tracking and Closure System
MDB	Multilateral Development Bank
MD&A	Management's Discussion and Analysis
OCC	Office of the Comptroller of Currency
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OTS	Office of Thrift Supervision
RRA 98	Restructuring and Reform Act of 1998
RTC	Resolution Trust Corporation
SDR	Special Drawing Rights
SFFAS	Statement of Federal Financial Accounting Standards
TCFOC	Treasury Chief Financial Officers Council
TIGTA	Treasury Inspector General for Tax Administration
TPA	Trade Promotion Authority
USCS	U.S. Customs Service
USSS	U.S. Secret Service